

PHILLIPS, HAGER & NORTH FUNDS

2017 Annual Management Report of Fund Performance

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MONEY MARKET FUND

**PHILLIPS, HAGER & NORTH
CANADIAN MONEY MARKET FUND**

*December 31, 2017***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 8, 2018.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE**Investment Objective and Strategies**

The Fund seeks to provide investors with a steady level of current income, capital preservation and liquidity by investing in a well-diversified portfolio of short-term Canadian money market securities with strong credit ratings. To achieve the Fund's investment objective, the portfolio manager invests in government or government guaranteed treasury bills, high-grade corporate notes, and asset-backed commercial paper. At the time of purchase, securities will generally have a term to maturity of less than 183 days and the portfolio's term to maturity will typically average 30 days. The Fund is conservatively managed and does not invest in foreign securities.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

Effective June 30, 2017, RBC GAM adopted the risk classification methodology under National Instrument 81-102 – *Investment Funds* (the "new risk classification methodology"). Pursuant to the new risk classification methodology, certain funds' risk ratings were changed. RBC GAM reviews each fund's risk rating on an annual basis or if there has been a material change to a fund's investment objectives or investment strategies. Any changes to a fund's risk rating are the result of RBC GAM's annual review and the adoption of the new risk classification methodology.

There were no changes to the Fund's risk rating during the reporting period.

Results of Operations

The Fund's net asset value rose to \$1.8 billion as of December 31, 2017, from \$1.3 billion at the end of 2016. The increase was due net inflows.

As of December 31, 2017, the current yields were 0.9% for Series A units, 0.9% for Advisor Series units, 0.9% for Series D units, 0.9% for Series F units and 1.4% for Series O units.

Over the past year, the Fund's Series O units returned 1.08%. The Fund's return is after the deduction of expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

During 2017, the portfolio manager allocated all of the Fund's assets to money-market instruments paying higher yields than Government of Canada treasury bills. Such instruments included corporate notes, bank-sponsored asset-backed commercial paper and bankers' acceptances. The portfolio also had a small allocation to short-term floating-rate notes, whose payments adjust to changes with short-term interest rates.

After having held the overnight rate steady at 0.5% through the first half of the year, the Bank of Canada (the "BOC") increased its benchmark rate in consecutive meetings in July and September, reversing the 2015 cuts that were made in response to a plunge in oil prices. As the BOC continues to move towards higher rates, short-term yields have risen, with yields on one-month treasury bills almost doubling during 2017 to 1.0%. This is more noticeable in corporate notes, with the extra yield available on longer-maturing corporate notes being attractive. As such, the portfolio manager kept the Fund's average maturity close to its 60-day maximum. This strategy was helpful to relative performance in the period.

Recent Developments

Several years of slow global economic growth and resulting growth-enhancing monetary policies have led to historically low global interest rates. However, the portfolio manager believes that interest rates could turn up as central banks lean towards removing stimulus in response to a stronger global economy.

In Canada, stronger-than-expected economic growth in 2017, especially in the first half of the year, prompted the BOC to begin raising its overnight policy rate for the first time in seven years. The BOC, however, continues to emphasize that future rate decisions will depend on whether economic growth is sustained. Investors are pricing in several more rate hikes for 2018, and the portfolio manager will use any significant movements in rates as opportunities to find attractive areas of investment.

Related-Party Transactions**Manager and Portfolio Manager**

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank and is the manager and principal portfolio manager of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund. Both the management fee and fixed administration fee are calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund.

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies. The Fund also maintains bank accounts and overdraft provisions with Royal Bank for which Royal Bank may earn a fee. Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series A, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and holds title to the Fund's property on behalf of unitholders. RBC IS is the custodian of the Fund and holds the assets of the Fund.

RBC IS earns a fee as the trustee and custodian, which is paid by the manager from the fixed administration fee paid by the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund. The registrars earn a fee, which is paid by the manager from the fixed administration fee paid by the Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Independent Review Committee with respect to one or more of the following transactions:

Related-Party Trading Activities

- (a) trades in securities of Royal Bank;
- (b) investments in the securities of issuers for which a related-party dealer acted as an underwriter during the distribution of such securities and the 60-day period following the conclusion of such distribution of the underwritten securities to the public;
- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal; and

Inter-Fund Trading

- (d) purchases or sales of securities of an issuer from or to another investment fund or managed account managed by RBC GAM.

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²					Net Assets End of Year/Period
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital	Total	
Series A												
Dec. 31, 2017	10.00	0.11	(0.05)	—	—	0.06	(0.06)	—	—	—	(0.06)	10.00
Dec. 31, 2016	10.00	0.09	(0.05)	—	—	0.04	(0.04)	—	—	—	(0.04)	10.00
Dec. 31, 2015	10.00	0.10	(0.05)	—	—	0.05	(0.05)	—	—	—	(0.05)	10.00
Dec. 31, 2014	10.00	0.12	(0.05)	—	—	0.07	(0.07)	—	—	—	(0.07)	10.00
Dec. 31, 2013	10.00	0.12	(0.04)	—	—	0.08	(0.08)	—	—	—	(0.08)	10.00
Advisor Series												
Dec. 31, 2017	10.00	0.11	(0.05)	—	—	0.06	(0.06)	—	—	—	(0.06)	10.00
Dec. 31, 2016	10.00	0.09	(0.05)	—	—	0.04	(0.04)	—	—	—	(0.04)	10.00
Dec. 31, 2015	10.00	0.10	(0.05)	—	—	0.05	(0.05)	—	—	—	(0.05)	10.00
Dec. 31, 2014	10.00	0.12	(0.05)	—	—	0.07	(0.07)	—	—	—	(0.07)	10.00
Dec. 31, 2013	10.00	0.12	(0.04)	—	—	0.08	(0.08)	—	—	—	(0.08)	10.00
Series D												
Dec. 31, 2017	10.00	0.11	(0.06)	—	0.01	0.06	(0.06)	—	—	—	(0.06)	10.00
Dec. 31, 2016	10.00	0.09	(0.05)	—	—	0.04	(0.04)	—	—	—	(0.04)	10.00
Dec. 31, 2015	10.00	0.09	(0.05)	—	—	0.04	(0.04)	—	—	—	(0.04)	10.00
Dec. 31, 2014	10.00	0.12	(0.06)	—	—	0.06	(0.07)	—	—	—	(0.07)	10.00
Dec. 31, 2013	10.00	0.12	(0.05)	—	—	0.07	(0.07)	—	—	—	(0.07)	10.00
Series F												
Dec. 31, 2017	10.00	0.11	(0.05)	—	0.02	0.07	(0.07)	—	—	—	(0.07)	10.00
Dec. 31, 2016	10.00	0.09	(0.05)	—	—	0.04	(0.04)	—	—	—	(0.04)	10.00
Dec. 31, 2015	10.00	0.10	(0.05)	—	—	0.05	(0.05)	—	—	—	(0.05)	10.00
Dec. 31, 2014	10.00	0.12	(0.05)	—	—	0.07	(0.08)	—	—	—	(0.08)	10.00
Dec. 31, 2013	10.00	0.12	(0.04)	—	—	0.08	(0.08)	—	—	—	(0.08)	10.00
Series O												
Dec. 31, 2017	10.00	0.10	—	—	0.01	0.11	(0.11)	—	—	—	(0.11)	10.00
Dec. 31, 2016	10.00	0.09	—	—	—	0.09	(0.09)	—	—	—	(0.09)	10.00
Dec. 31, 2015	10.00	0.10	—	—	—	0.10	(0.10)	—	—	—	(0.10)	10.00
Dec. 31, 2014	10.00	0.12	—	—	—	0.12	(0.12)	—	—	—	(0.12)	10.00
Dec. 31, 2013	10.00	0.13	—	—	—	0.13	(0.13)	—	—	—	(0.13)	10.00

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series A							
Dec. 31, 2017	10.00	4 843	484	0.54	0.54	n/a	—
Dec. 31, 2016	10.00	5 216	522	0.53	0.53	n/a	—
Dec. 31, 2015	10.00	6 575	658	0.54	0.54	n/a	—
Dec. 31, 2014	10.00	4 313	431	0.54	0.54	n/a	—
Dec. 31, 2013	10.00	3 606	361	0.54	0.54	n/a	—
Advisor Series							
Dec. 31, 2017	10.00	1 013	101	0.53	0.53	n/a	—
Dec. 31, 2016	10.00	1 433	143	0.53	0.53	n/a	—
Dec. 31, 2015	10.00	3 576	358	0.54	0.54	n/a	—
Dec. 31, 2014	10.00	3 327	333	0.54	0.54	n/a	—
Dec. 31, 2013	10.00	4 741	474	0.55	0.55	n/a	—
Series D							
Dec. 31, 2017	10.00	348 026	34 800	0.56	0.56	n/a	—
Dec. 31, 2016	10.00	248 646	24 865	0.55	0.55	n/a	—
Dec. 31, 2015	10.00	519 426	51 943	0.55	0.55	n/a	—
Dec. 31, 2014	10.00	271 683	27 168	0.57	0.57	n/a	—
Dec. 31, 2013	10.00	267 915	26 792	0.57	0.57	n/a	—
Series F							
Dec. 31, 2017	10.00	4 301	430	0.48	0.48	n/a	—
Dec. 31, 2016	10.00	2 706	271	0.48	0.48	n/a	—
Dec. 31, 2015	10.00	3 806	381	0.48	0.48	n/a	—
Dec. 31, 2014	10.00	5 237	524	0.48	0.48	n/a	—
Dec. 31, 2013	10.00	6 268	627	0.48	0.48	n/a	—
Series O							
Dec. 31, 2017	10.00	1 403 144	140 304	0.02	0.02	n/a	—
Dec. 31, 2016	10.00	1 002 984	100 298	0.02	0.02	n/a	—
Dec. 31, 2015	10.00	1 022 721	102 272	0.03	0.03	n/a	—
Dec. 31, 2014	10.00	980 168	98 017	0.03	0.03	n/a	—
Dec. 31, 2013	10.00	1 147 933	114 793	0.03	0.03	n/a	—

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio manager of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series A	0.65%	38%	62%
Advisor Series	0.65%	38%	62%
Series D	Note 1	23%	77%
Series F	0.40%	—	100%

Note 1 – 0.50% (decreasing to 0.40% on the net Series D asset value over \$200,000,000).

Series O – no management fees are paid by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

* Includes all costs related to management, investment advisory services, general administration and profit.

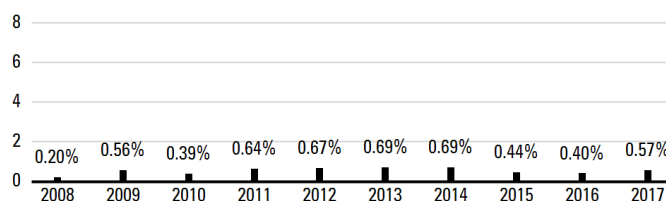
PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

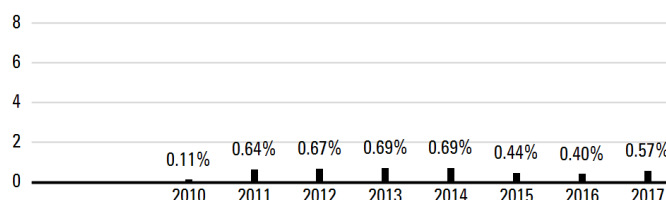
Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.

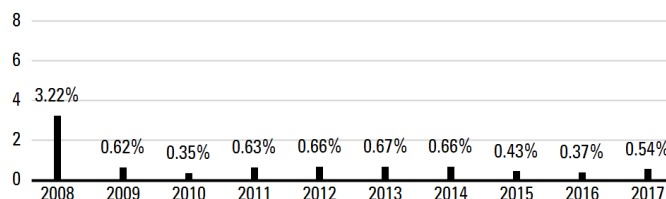
Series A (%)



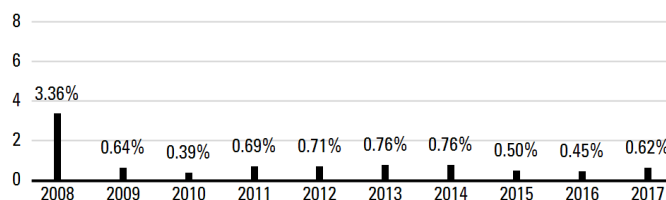
Advisor Series (%)



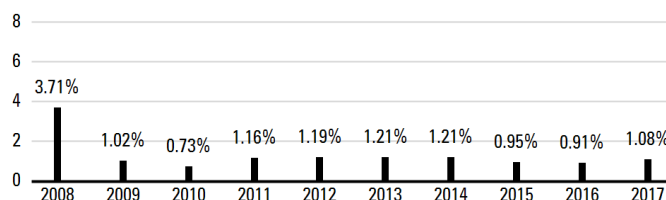
Series D (%)



Series F (%)



Series O (%)



Advisor Series units have been available for sale to unitholders since October 2010, and Series A units since November 2008.

Inception dates are not provided for series that have been in existence for more than 10 years.

All outstanding Series C units were renamed Series A units effective June 30, 2016. Series D was known as Series A prior to November 17, 2008.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2017

Investment Mix

	% of Net Asset Value
Corporate Notes	98.3
Cash/Other	1.7

Top 25 Holdings

	% of Net Asset Value
Enbridge Pipelines Inc. 1.332% Jan 15 2018	2.3
Bank of Nova Scotia 1.322% Feb 27 2018	2.2
Banner Trust 1.461% Mar 28 2018	2.0
Lower Mattagami Energy LP 1.267% Jan 4 2018	1.7
Husky Energy Inc. 1.332% Jan 12 2018	1.7
Caisse Centrale Desjardins 1.302% Feb 1 2018	1.6
Canadian Master Trust - Series A 1.461% Jan 30 2018	1.4
Prime Trust - Senior Notes 1.336% Jan 18 2018	1.4
Nissan Canada Financial Services Inc. 1.344% Jan 17 2018	1.3
Ridge Trust 1.421% Feb 16 2018	1.3
Merit Trust - Senior Notes 1.351% Jan 23 2018	1.2
Zeus Receivables Trust - Senior Notes 1.336% Jan 18 2018	1.2
Fusion Trust 1.518% Apr 6 2018	1.2
Gaz Metro Inc. 1.400% Mar 6 2018	1.1
SOUND Trust 1.401% Feb 8 2018	1.1
King Street Funding Trust 1.421% Mar 9 2018	1.1
Merit Trust - Senior Notes 1.500% Mar 12 2018	1.1
Toronto-Dominion Bank 1.520% May 29 2018	1.1
Zeus Receivables Trust - Senior Notes 1.611% Apr 3 2018	1.1
Banner Trust 1.501% Mar 14 2018	1.1
National Bank of Canada 1.530% Aug 9 2018	1.1
HSBC Bank Canada 1.288% Feb 2 2018	1.1
TMX Group Ltd. 1.319% Jan 12 2018	1.1
HSBC Bank Canada 1.333% Feb 1 2018	1.1
Caterpillar Financial Services Ltd. 1.285% Jan 10 2018	1.0
Top 25 Holdings	33.6

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.rbcgam.com/funds, or by emailing us at info@phn.com.

MONEY MARKET FUND

PHILLIPS, HAGER & NORTH
\$U.S. MONEY MARKET FUND

 December 31, 2017

Portfolio Manager *RBC Global Asset Management Inc. ("RBC GAM")*

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This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE (in USD)**Investment Objective and Strategies**

The Fund seeks to provide investors with a steady level of current income while preserving capital by investing primarily in Canadian short-term debt instruments denominated in U.S. dollars. To achieve the Fund's investment objective, the portfolio manager invests in government or government-guaranteed treasury bills, asset-backed commercial paper and high-grade corporate notes. At the time of purchase, the portfolio's term to maturity will typically average 30 days. The Fund is managed within a conservative framework.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

Effective June 30, 2017, RBC GAM adopted the risk classification methodology under National Instrument 81-102 – *Investment Funds* (the "new risk classification methodology"). Pursuant to the new risk classification methodology, certain funds' risk ratings were changed. RBC GAM reviews each fund's risk rating on an annual basis or if there has been a material change to a fund's investment objectives or investment strategies. Any changes to a fund's risk rating are the result of RBC GAM's annual review and the adoption of the new risk classification methodology.

There were no changes to the Fund's risk rating during the reporting period.

Results of Operations

The Fund's net asset value rose to \$71 million as of December 31, 2017, from \$52 million at the end of 2016. The increase was due to net inflows.

As of December 31, 2017, the current yields were 1.4% for Series A units, 1.4% for Advisor Series units, 1.4% for Series D units, 1.4% for Series F units and 1.6% for Series O units.

Over the past year, the Fund's Series O units returned 1.22%. The Fund's return is after the deduction of expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

During the period, the portfolio manager allocated all of the Fund's assets to money-market instruments paying higher yields than U.S. Treasury bills, including U.S.-dollar-denominated corporate notes, bank-sponsored asset-backed commercial paper and bankers' acceptances. The Fund also had a small allocation in corporate short-term floating-

rate notes, which provide payments that adjust to changes in short-term interest rates, and U.S.-dollar-denominated fixed- and floating-rate notes issued by Canadian provinces.

The U.S. Federal Reserve (the "Fed") continued to raise its benchmark interest rate in 2017, ending the year with a target range of 1.25%–1.5%. Looking forward, the portfolio manager expects that the Fed will continue raising its policy rate towards a more "normal" level. As a result, the short-end of the U.S. yield curve has increased. Similarly, longer-maturity corporate notes continue to provide attractive incremental yield, which the Fund captures through an allocation to longer-than-benchmark maturities. This strategy contributed to relative performance in the period.

Recent Developments

With U.S. economic growth on a sustainable path, the Fed is likely to extend its policy of raising short-term rates and decreasing its stockpile of bonds. Such policy is appropriate because recently enacted U.S. tax reform will further boost economic growth. Moreover, inflation pressures may be stirring. Barring any unforeseen circumstances that would derail the recovery, the Fund will be managed with an emphasis on shorter-term securities that can be reinvested at higher yields as rates rise.

Related-Party Transactions**Manager and Portfolio Manager**

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank and is the manager and principal portfolio manager of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund. Both the management fee and fixed administration fee are calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund.

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies. The Fund also maintains bank accounts and overdraft provisions with Royal Bank for which Royal Bank may earn a fee. Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series A, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and holds title to the Fund's property on behalf of unitholders. RBC IS is the custodian of the Fund and holds the assets of the Fund.

RBC IS earns a fee as the trustee and custodian, which is paid by the manager from the fixed administration fee paid by the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund. The registrars earn a fee, which is paid by the manager from the fixed administration fee paid by the Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Independent Review Committee with respect to one or more of the following transactions:

Related-Party Trading Activities

- (a) trades in securities of Royal Bank;
- (b) investments in the securities of issuers for which a related-party dealer acted as an underwriter during the distribution of such securities and the 60-day period following the conclusion of such distribution of the underwritten securities to the public;
- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal; and

Inter-Fund Trading

- (d) purchases or sales of securities of an issuer from or to another investment fund or managed account managed by RBC GAM.

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

PHILLIPS, HAGER & NORTH \$U.S. MONEY MARKET FUND

(IN U.S. DOLLARS)

FINANCIAL HIGHLIGHTS (in USD)

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²					Net Assets End of Year/Period
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series A												
Dec. 31, 2017	10.00	0.13	(0.03)	—	—	0.10	(0.10)	—	—	—	(0.10)	10.00
Dec. 31, 2016	10.00	0.07	(0.02)	—	—	0.05	(0.05)	—	—	—	(0.05)	10.00
Dec. 31, 2015	10.00	0.03	(0.01)	—	—	0.02	(0.02)	—	—	—	(0.02)	10.00
Dec. 31, 2014	10.00	0.02	(0.01)	—	—	0.01	(0.01)	—	—	—	(0.01)	10.00
Dec. 31, 2013	10.00	0.03	(0.01)	—	—	0.02	(0.02)	—	—	—	(0.02)	10.00
Advisor Series												
Dec. 31, 2017	10.00	0.13	(0.03)	—	—	0.10	(0.10)	—	—	—	(0.10)	10.00
Dec. 31, 2016	10.00	0.07	(0.02)	—	—	0.05	(0.05)	—	—	—	(0.05)	10.00
Dec. 31, 2015	10.00	0.03	(0.01)	—	—	0.02	(0.02)	—	—	—	(0.02)	10.00
Dec. 31, 2014	10.00	0.02	(0.01)	—	—	0.01	(0.01)	—	—	—	(0.01)	10.00
Dec. 31, 2013	10.00	0.03	(0.01)	—	—	0.02	(0.02)	—	—	—	(0.02)	10.00
Series D												
Dec. 31, 2017	10.00	0.13	(0.03)	—	—	0.10	(0.10)	—	—	—	(0.10)	10.00
Dec. 31, 2016	10.00	0.07	(0.02)	—	—	0.05	(0.05)	—	—	—	(0.05)	10.00
Dec. 31, 2015	10.00	0.03	(0.01)	—	—	0.02	(0.02)	—	—	—	(0.02)	10.00
Dec. 31, 2014	10.00	0.02	(0.01)	—	—	0.01	(0.01)	—	—	—	(0.01)	10.00
Dec. 31, 2013	10.00	0.03	(0.01)	—	—	0.02	(0.02)	—	—	—	(0.02)	10.00
Series F												
Dec. 31, 2017	10.00	0.13	(0.02)	—	(0.01)	0.10	(0.10)	—	—	—	(0.10)	10.00
Dec. 31, 2016	10.00	0.07	(0.02)	—	—	0.05	(0.05)	—	—	—	(0.05)	10.00
Dec. 31, 2015	10.00	0.03	(0.01)	—	—	0.02	(0.02)	—	—	—	(0.02)	10.00
Dec. 31, 2014	10.00	0.02	(0.01)	—	—	0.01	(0.01)	—	—	—	(0.01)	10.00
Dec. 31, 2013	10.00	0.03	(0.01)	—	—	0.02	(0.02)	—	—	—	(0.02)	10.00
Series O												
Dec. 31, 2017	10.00	0.14	(0.01)	—	(0.01)	0.12	(0.12)	—	—	—	(0.12)	10.00
Dec. 31, 2016	10.00	0.08	(0.01)	—	—	0.07	(0.07)	—	—	—	(0.07)	10.00
Dec. 31, 2015	10.00	0.04	(0.01)	—	—	0.03	(0.03)	—	—	—	(0.03)	10.00
Dec. 31, 2014	10.00	0.02	(0.01)	—	—	0.01	(0.02)	—	—	—	(0.02)	10.00
Dec. 31, 2013	10.00	0.03	(0.01)	—	—	0.02	(0.02)	—	—	—	(0.02)	10.00

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

FINANCIAL HIGHLIGHTS (in USD) (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series A							
Dec. 31, 2017	10.00	1 209	121	0.27	0.27	n/a	—
Dec. 31, 2016	10.00	1 089	109	0.25	0.25	n/a	—
Dec. 31, 2015	10.00	1 469	147	0.12	0.12	n/a	—
Dec. 31, 2014	10.00	1 930	193	0.12	0.12	n/a	—
Dec. 31, 2013	10.00	2 368	237	0.12	0.12	n/a	—
Advisor Series							
Dec. 31, 2017	10.00	54	5	0.27	0.27	n/a	—
Dec. 31, 2016	10.00	54	5	0.24	0.24	n/a	—
Dec. 31, 2015	10.00	69	7	0.11	0.11	n/a	—
Dec. 31, 2014	10.00	93	9	0.12	0.12	n/a	—
Dec. 31, 2013	10.00	124	12	0.12	0.12	n/a	—
Series D							
Dec. 31, 2017	10.00	19 096	1 909	0.27	0.27	n/a	—
Dec. 31, 2016	10.00	15 180	1 518	0.25	0.25	n/a	—
Dec. 31, 2015	10.00	13 985	1 399	0.11	0.11	n/a	—
Dec. 31, 2014	10.00	16 354	1 635	0.11	0.11	n/a	—
Dec. 31, 2013	10.00	25 105	2 511	0.11	0.11	n/a	—
Series F							
Dec. 31, 2017	10.00	1 408	141	0.22	0.22	n/a	—
Dec. 31, 2016	10.00	819	82	0.19	0.19	n/a	—
Dec. 31, 2015	10.00	2 735	273	0.12	0.12	n/a	—
Dec. 31, 2014	10.00	3 035	303	0.12	0.12	n/a	—
Dec. 31, 2013	10.00	4 837	484	0.12	0.12	n/a	—
Series O							
Dec. 31, 2017	10.00	49 439	4 943	0.05	0.05	n/a	—
Dec. 31, 2016	10.00	34 364	3 436	0.06	0.06	n/a	—
Dec. 31, 2015	10.00	33 533	3 353	0.06	0.06	n/a	—
Dec. 31, 2014	10.00	34 032	3 403	0.06	0.06	n/a	—
Dec. 31, 2013	10.00	41 491	4 149	0.06	0.06	n/a	—

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

FINANCIAL HIGHLIGHTS (in USD) (cont.)**Management Fees**

RBC GAM is the manager and portfolio manager of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series A	0.75%	33%	67%
Advisor Series	0.75%	33%	67%
Series D	0.50%	20%	80%
Series F	0.50%	—	100%

Series O – no management fees are paid by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

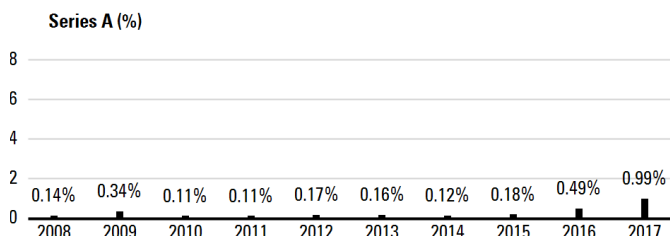
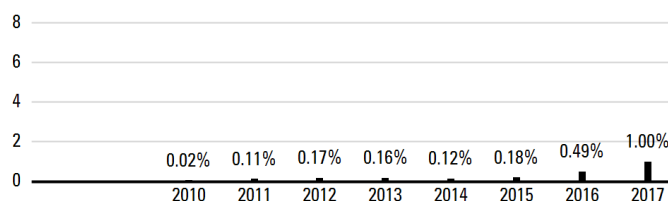
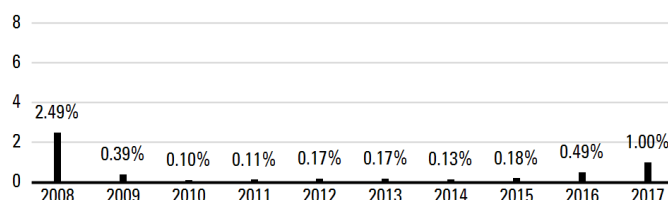
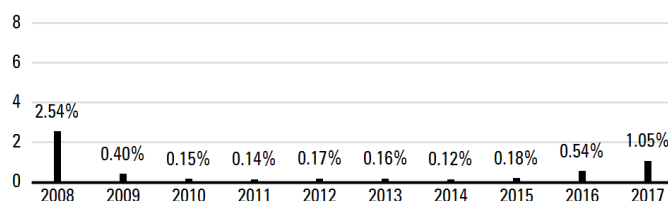
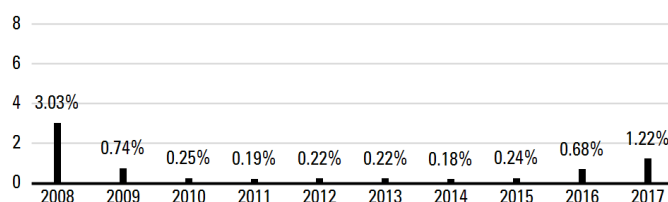
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE (in USD)

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.

**Advisor Series (%)****Series D (%)****Series F (%)****Series O (%)**

Advisor Series units have been available for sale to unitholders since October 2010, and Series A units since November 2008.

Inception dates are not provided for series that have been in existence for more than 10 years.

All outstanding Series C units were renamed Series A units effective June 30, 2016. Series D was known as Series A prior to November 17, 2008.

SUMMARY OF INVESTMENT PORTFOLIO (in USD)*(after consideration of derivative products, if any)**As at December 31, 2017***Investment Mix**

	% of Net Asset Value
Corporate Notes	80.7
Government Notes	18.6
Cash/Other	0.7

Top 25 Holdings

	% of Net Asset Value
Province of Alberta 1.425% Feb 1 2018	10.3
Canadian Imperial Bank of Commerce 1.469% Feb 6 2018	7.6
Merit Trust - Senior Notes 1.641% Feb 5 2018	4.4
Bank of Montreal 1.469% Feb 6 2018	4.2
OMERS Realty Corp. 1.330% Jan 8 2018	4.2
SAFE Trust - Series 1996-1 1.728% Feb 13 2018	4.2
Province of Alberta 1.553% Jan 22 2018	3.7
Canadian Master Trust - Series A 2.020% May 14 2018	3.5
Toronto-Dominion Bank 1.450% Mar 20 2018	3.5
King Street Funding Trust 2.103% Jan 24 2018	3.4
Bay Street Funding Trust - Class A 2.103% Jan 24 2018	3.4
Ridge Trust 1.679% Feb 23 2018	3.3
Toronto-Dominion Bank 1.277% Jan 3 2018	3.1
Fusion Trust 1.789% Apr 5 2018	3.1
Banner Trust 1.995% Jan 18 2018	2.8
SURE Trust 1.861% May 7 2018	2.8
Clarity Trust 1.910% May 14 2018	2.8
Province of Alberta 1.419% Feb 22 2018	2.6
TMX Group Ltd. 1.475% Jan 8 2018	2.5
Gaz Metro Inc. 1.310% Jan 12 2018	2.2
Enbridge Pipelines Inc. 1.531% Feb 1 2018	2.2
Province of Alberta 1.638% Feb 16 2018	2.1
SOUND Trust 1.929% May 29 2018	2.1
Bank of Montreal 1.517% Feb 15 2018	1.8
Prime Trust - Senior Notes 1.641% Feb 5 2018	1.8
Top 25 Holdings	87.6

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.rbcgam.com/funds, or by emailing us at info@phn.com.

FIXED-INCOME FUND

PHILLIPS, HAGER & NORTH
SHORT TERM BOND & MORTGAGE FUND

 December 31, 2017

Portfolio Manager *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 8, 2018.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank").

PHILLIPS, HAGER & NORTH SHORT TERM BOND & MORTGAGE FUND**MANAGEMENT DISCUSSION OF FUND PERFORMANCE****Investment Objective and Strategies**

The Fund seeks to provide investors with relatively high yields and stability of capital by investing primarily in Canadian government and corporate bonds and multi-residential mortgages on property located in Canada. Investments are made in accordance with National Policy Statement No. 29, a set of regulatory guidelines covering mortgage purchases by mutual funds. To achieve the Fund's investment objective, the portfolio manager invests in high-quality Canadian corporate bonds, government bonds, and up to 40% of the Fund's net assets in conventional first mortgages and mortgages guaranteed under the National Housing Act (Canada). The portfolio manager may also invest in asset-backed commercial paper. Securities purchased will generally not have a term to maturity exceeding seven years and three months, and the average term to maturity of the portfolio will generally be three years.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

Effective June 30, 2017, RBC GAM adopted the risk classification methodology under National Instrument 81-102 – *Investment Funds* (the "new risk classification methodology"). Pursuant to the new risk classification methodology, certain funds' risk ratings were changed. RBC GAM reviews each fund's risk rating on an annual basis or if there has been a material change to a fund's investment objectives or investment strategies. Any changes to a fund's risk rating are the result of RBC GAM's annual review and the adoption of the new risk classification methodology.

There were no changes to the Fund's risk rating during the reporting period.

Results of Operations

The Fund's net asset value rose to \$6.4 billion as of December 31, 2017, from \$5.7 billion at the end of 2016. The increase was due to net inflows.

Over the past year, the Fund's Series O units gained 0.6%, which outperformed the 0.1% rise in the benchmark. The Fund's return is after the deduction of expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

Canadian bonds posted modest returns as the impact of subdued inflation offset interest-rate hikes from the Bank of Canada (the "BOC") and investors perceived that Donald Trump's election as U.S. president would bolster economic growth. Against this backdrop, the portfolio manager did not have a strong view on the overall direction of bond yields, and therefore kept the Fund's average maturity close to that of its benchmark for most of the period. A slight emphasis on longer-term bonds during the year contributed positively to relative performance.

Strategies involving corporate bonds and mortgages were important for performance relative to the benchmark during 2017. Non-government bonds outperformed during the year given continued investor demand for income in a low-yield environment, making such investments less attractive. As a result, the portfolio manager reduced exposure to corporate bonds to benchmark weight with an emphasis towards higher-quality companies less sensitive to financial-market movements. Exposure to provincial bonds was reduced for similar reasons. Proceeds from these divestments were used to fund additional exposure to federal-agency bonds, specifically ones issued by Canada Housing Trust, which are fully guaranteed by the federal government and offer higher yields than Government of Canada bonds. The Fund's allocation to government-guaranteed mortgages also contributed to performance over the year.

Portfolio turnover is normally high for the Fund, as the portfolio manager attempts to generate better returns through active security selection and optimal term exposure.

Recent Developments

Several years of slow global economic growth and resulting growth-enhancing monetary policies have led to historically low global interest rates. However, the portfolio manager believes that interest rates could turn up as central banks lean towards removing stimulus in response to a stronger global economy.

In Canada, stronger-than-expected economic growth in 2017, especially in the first half of the year, prompted the BOC to begin raising its overnight policy rate for the first time in seven years. The BOC, however, continues to emphasize that future rate decisions will depend on whether economic growth is sustained. Investors are pricing in several more rate hikes for 2018, and the portfolio manager will use any significant movements in rates as opportunities to find attractive areas of investment.

Effective July 26, 2017, the Fund was reopened to new investors after being closed to new investors effective July 4, 2016.

PHILLIPS, HAGER & NORTH SHORT TERM BOND & MORTGAGE FUND**Related-Party Transactions*****Manager and Portfolio Manager***

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank and is the manager and principal portfolio manager of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund. Both the management fee and fixed administration fee are calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund.

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies. The Fund also maintains bank accounts and overdraft provisions with Royal Bank for which Royal Bank may earn a fee. Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series A, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and holds title to the Fund's property on behalf of unitholders. RBC IS is the custodian of the Fund and holds the assets of the Fund.

RBC IS earns a fee as the trustee and custodian, which is paid by the manager from the fixed administration fee paid by the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund. The registrars earn a fee, which is paid by the manager from the fixed administration fee paid by the Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Independent Review Committee with respect to one or more of the following transactions:

Related-Party Trading Activities

- (a) trades in securities of Royal Bank;
- (b) investments in the securities of issuers for which a related-party dealer acted as an underwriter during the distribution of such securities and the 60-day period following the conclusion of such distribution of the underwritten securities to the public;
- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal; and

Inter-Fund Trading

- (d) purchases or sales of securities of an issuer from or to another investment fund or managed account managed by RBC GAM.

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

PHILLIPS, HAGER & NORTH SHORT TERM BOND & MORTGAGE FUND**FINANCIAL HIGHLIGHTS**

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²					Net Assets End of Year/Period
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series A												
Dec. 31, 2017	10.42	0.24	(0.11)	(0.05)	(0.11)	(0.03)	(0.13)	—	—	—	(0.13)	10.25
Dec. 31, 2016	10.49	0.27	(0.12)	(0.03)	(0.07)	0.05	(0.15)	—	—	—	(0.15)	10.42
Dec. 31, 2015	10.50	0.29	(0.12)	0.02	(0.02)	0.17	(0.16)	—	(0.02)	—	(0.18)	10.49
Dec. 31, 2014	10.42	0.30	(0.12)	0.02	0.06	0.26	(0.17)	—	—	—	(0.17)	10.50
Dec. 31, 2013	10.50	0.32	(0.12)	(0.04)	(0.06)	0.10	(0.20)	—	—	—	(0.20)	10.41
Advisor Series												
Dec. 31, 2017	10.42	0.24	(0.11)	(0.05)	(0.11)	(0.03)	(0.13)	—	—	—	(0.13)	10.25
Dec. 31, 2016	10.49	0.27	(0.12)	(0.03)	(0.04)	0.08	(0.15)	—	—	—	(0.15)	10.42
Dec. 31, 2015	10.50	0.29	(0.12)	0.02	(0.02)	0.17	(0.17)	—	(0.01)	—	(0.18)	10.49
Dec. 31, 2014	10.42	0.30	(0.12)	0.02	0.06	0.26	(0.18)	—	—	—	(0.18)	10.50
Dec. 31, 2013	10.50	0.30	(0.12)	(0.03)	(0.06)	0.09	(0.20)	—	—	—	(0.20)	10.41
Series D												
Dec. 31, 2017	10.38	0.23	(0.06)	(0.05)	(0.12)	—	(0.17)	—	—	—	(0.17)	10.21
Dec. 31, 2016	10.45	0.27	(0.06)	(0.03)	(0.05)	0.13	(0.20)	—	—	—	(0.20)	10.38
Dec. 31, 2015	10.45	0.29	(0.06)	0.02	(0.02)	0.23	(0.23)	—	(0.01)	—	(0.24)	10.45
Dec. 31, 2014	10.38	0.30	(0.06)	0.02	0.06	0.32	(0.24)	—	—	—	(0.24)	10.45
Dec. 31, 2013	10.47	0.31	(0.06)	(0.04)	(0.06)	0.15	(0.25)	—	—	—	(0.25)	10.37
Series F												
Dec. 31, 2017	10.36	0.23	(0.05)	(0.05)	(0.11)	0.02	(0.18)	—	—	—	(0.18)	10.19
Dec. 31, 2016	10.43	0.26	(0.06)	(0.03)	(0.06)	0.11	(0.20)	—	—	—	(0.20)	10.36
Dec. 31, 2015	10.43	0.28	(0.06)	0.02	(0.02)	0.22	(0.22)	—	(0.01)	—	(0.23)	10.43
Dec. 31, 2014	10.36	0.30	(0.06)	0.02	0.06	0.32	(0.24)	—	—	—	(0.24)	10.43
Dec. 31, 2013	10.45	0.31	(0.06)	(0.04)	(0.06)	0.15	(0.25)	—	—	—	(0.25)	10.35
Series O												
Dec. 31, 2017	10.09	0.23	(0.01)	(0.05)	(0.11)	0.06	(0.22)	—	—	—	(0.22)	9.92
Dec. 31, 2016	10.16	0.26	(0.01)	(0.03)	(0.04)	0.18	(0.25)	—	—	—	(0.25)	10.09
Dec. 31, 2015	10.17	0.28	(0.01)	0.02	(0.02)	0.27	(0.27)	—	(0.02)	—	(0.29)	10.16
Dec. 31, 2014	10.08	0.29	(0.01)	0.02	0.05	0.35	(0.28)	—	—	—	(0.28)	10.17
Dec. 31, 2013	10.17	0.31	(0.01)	(0.04)	(0.06)	0.20	(0.30)	—	—	—	(0.30)	10.08

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

PHILLIPS, HAGER & NORTH SHORT TERM BOND & MORTGAGE FUND**FINANCIAL HIGHLIGHTS (cont.)****Ratios and Supplemental Data**

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series A							
Dec. 31, 2017	10.25	109 271	10 664	1.04	1.04	166.33	—
Dec. 31, 2016	10.42	172 864	16 593	1.10 ⁴	1.10	185.85	—
Dec. 31, 2015	10.49	144 831	13 808	1.16	1.16	200.13	—
Dec. 31, 2014	10.50	172 126	16 394	1.16	1.16	213.40	—
Dec. 31, 2013	10.42	228 351	21 918	1.15	1.15	291.57	—
Advisor Series							
Dec. 31, 2017	10.25	13 688	1 335	1.04	1.04	166.33	—
Dec. 31, 2016	10.42	20 873	2 003	1.11 ⁴	1.11	185.85	—
Dec. 31, 2015	10.49	27 136	2 586	1.16	1.16	200.13	—
Dec. 31, 2014	10.50	26 702	2 544	1.16	1.16	213.40	—
Dec. 31, 2013	10.42	29 762	2 857	1.15	1.15	291.57	—
Series D							
Dec. 31, 2017	10.21	199 889	19 577	0.60	0.60	166.33	—
Dec. 31, 2016	10.38	214 040	20 621	0.60	0.60	185.85	—
Dec. 31, 2015	10.45	220 901	21 137	0.60	0.60	200.13	—
Dec. 31, 2014	10.45	227 660	21 775	0.60	0.60	213.40	—
Dec. 31, 2013	10.38	223 561	21 543	0.60	0.60	291.57	—
Series F							
Dec. 31, 2017	10.19	133 584	13 111	0.49	0.49	166.33	—
Dec. 31, 2016	10.36	145 710	14 067	0.54 ⁴	0.54	185.85	—
Dec. 31, 2015	10.43	101 384	9 720	0.61	0.61	200.13	—
Dec. 31, 2014	10.43	115 516	11 071	0.61	0.61	213.40	—
Dec. 31, 2013	10.36	111 207	10 736	0.61	0.61	291.57	—
Series O							
Dec. 31, 2017	9.92	5 940 235	598 459	0.05	0.05	166.33	—
Dec. 31, 2016	10.09	5 186 690	514 114	0.06	0.06	185.85	—
Dec. 31, 2015	10.16	4 507 824	443 659	0.06	0.06	200.13	—
Dec. 31, 2014	10.17	4 033 918	396 757	0.06	0.06	213.40	—
Dec. 31, 2013	10.08	3 012 624	298 732	0.06	0.06	291.57	—

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ Effective June 30, 2016, the management fees were changed in respect of Series A, Advisor Series and Series F units of the Fund. If the changes to the management fees would have been in effect throughout 2016, the adjusted MER for each series of the Fund would be: Series A – 1.05%, Advisor Series – 1.05% and Series F – 0.49%.

PHILLIPS, HAGER & NORTH SHORT TERM BOND & MORTGAGE FUND
FINANCIAL HIGHLIGHTS (cont.)
Management Fees

RBC GAM is the manager and portfolio manager of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series A	0.90%	56%	44%
Advisor Series	0.90%	56%	44%
Series D	0.50%	30%	70%
Series F	0.40%	—	100%

Series O – no management fees are paid by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

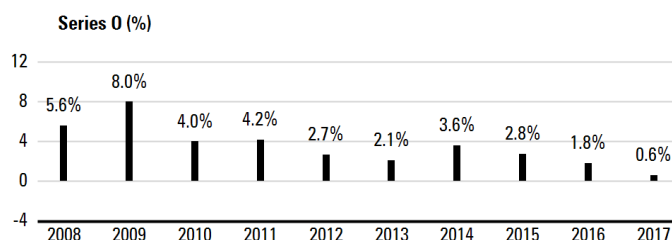
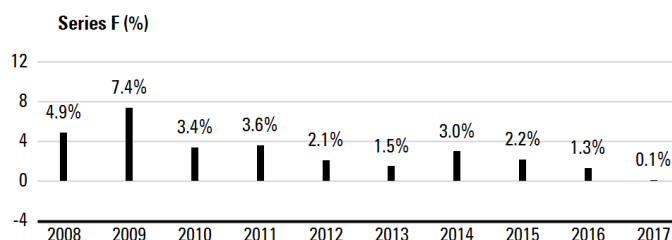
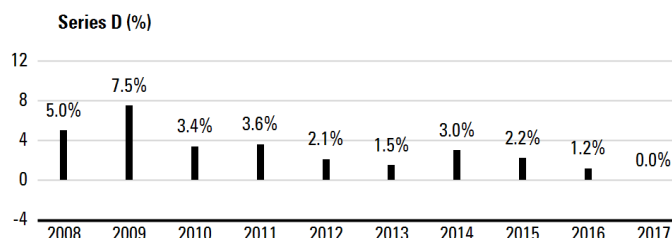
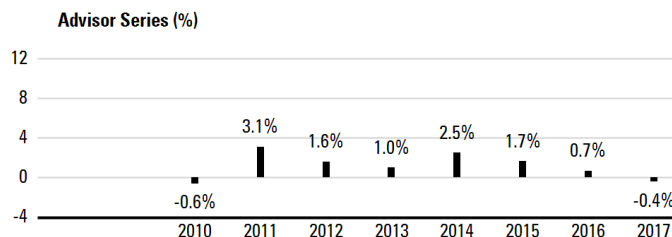
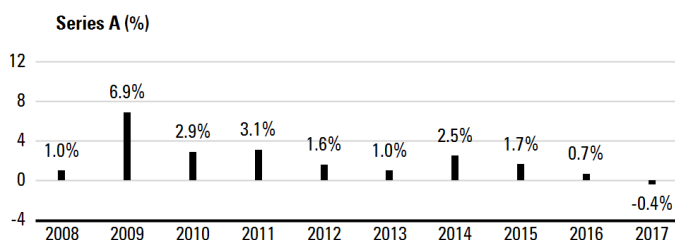
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



PHILLIPS, HAGER & NORTH SHORT TERM BOND & MORTGAGE FUND
PAST PERFORMANCE (cont.)
Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2017, compared with the following benchmark:

FTSE TMX Canada Short Term Bond Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	-0.4	0.6	1.1	—	2.3
Benchmark	0.1	1.2	1.7	—	2.8
Advisor Series	-0.4	0.6	1.1	—	1.3
Benchmark	0.1	1.2	1.7	—	2.0
Series D	0.0	1.1	1.6	2.9	—
Benchmark	0.1	1.2	1.7	3.2	—
Series F	0.1	1.2	1.6	2.9	—
Benchmark	0.1	1.2	1.7	3.2	—
Series O	0.6	1.7	2.2	3.5	—
Benchmark	0.1	1.2	1.7	3.2	—

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Advisor Series units have been available for sale to unitholders since October 2010, and Series A units since November 2008.

Inception dates are not provided for series that have been in existence for more than 10 years.

All outstanding Series H units were re-designated as Series C units and then immediately renamed Series A units effective June 30, 2016. All outstanding Series I units were re-designated as Series F units effective June 30, 2016. Series D was known as Series A prior to November 17, 2008.

INDEX DESCRIPTION

FTSE TMX Canada Short Term Bond Index This index is a measure of the performance of Canadian bonds with terms to maturity of one to five years and is a good proxy for a short-term fixed-income investment.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2017

Investment Mix

	% of Net Asset Value
Federal Bonds	41.2
Corporate Bonds	32.4
Mortgages	9.7
Provincial Bonds	8.9
Mortgage-Backed Bonds	6.1
Cash/Other	1.7

Top 25 Holdings

	% of Net Asset Value
Province of Ontario 4.200% Jun 2 2020	4.6
Canada Housing Trust No. 1 2.400% Dec 15 2022	3.9
Government of Canada 1.250% Feb 1 2020	3.9
Canada Housing Trust No. 1 1.250% Dec 15 2020	3.6
Government of Canada 1.750% Mar 1 2023	3.3
Government of Canada 1.250% Nov 1 2019	3.2
Government of Canada 1.000% Sep 1 2022	3.1
Canada Housing Trust No. 1 2.000% Dec 15 2019	2.8
Province of Alberta 1.250% Jun 1 2020	2.6
Canada Housing Trust No. 1 1.250% Jun 15 2021	2.6
Canada Housing Trust No. 1 1.950% Jun 15 2019	2.3
Toronto-Dominion Bank 1.680% Jun 8 2021	2.2
Canada Housing Trust No. 1 1.450% Jun 15 2020	2.2
Government of Canada 0.500% Mar 1 2022	1.8
Cash & Cash Equivalents	1.4
Canada Housing Trust No. 1 1.500% Dec 15 2021	1.4
Royal Bank of Canada 1.400% Apr 26 2019	1.3
Canada Housing Trust No. 1 3.750% Mar 15 2020	1.3
Government of Canada 1.500% Jun 1 2023	1.2
Royal Bank of Canada 2.030% Mar 15 2021	1.2
Government of Canada 0.750% Sep 1 2021	1.1
Enbridge Pipelines Inc. 6.620% Nov 19 2018	1.1
Province of Ontario 3.150% Jun 2 2022	0.9
Wells Fargo & Co. CAD 2.222% Mar 15 2021	0.9
Province of Manitoba 1.550% Sep 5 2021	0.8
Top 25 Holdings	54.7

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.rbcgam.com/funds, or by emailing us at info@phn.com.

FIXED-INCOME FUND

PHILLIPS, HAGER & NORTH BOND FUND

December 31, 2017

Portfolio Manager *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 8, 2018.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to provide investors with relatively high yields and stability of capital by investing in a well-diversified portfolio of fixed-income securities issued primarily by Canadian governments and corporations. Through a mix of interest income and capital appreciation, the Fund aims to provide a competitive rate of return while controlling the interest rate and credit risks to which it is exposed. To achieve the Fund's investment objective, the portfolio manager invests primarily in high-quality Canadian corporate and government bonds issued in either Canadian or U.S. dollars. The portfolio manager may also invest in asset-backed commercial paper. The average term to maturity of the portfolio is managed within strict guidelines, and typically falls between seven and 12 years.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

Effective June 30, 2017, RBC GAM adopted the risk classification methodology under National Instrument 81-102 – *Investment Funds* (the "new risk classification methodology"). Pursuant to the new risk classification methodology, certain funds' risk ratings were changed. RBC GAM reviews each fund's risk rating on an annual basis or if there has been a material change to a fund's investment objectives or investment strategies. Any changes to a fund's risk rating are the result of RBC GAM's annual review and the adoption of the new risk classification methodology.

There were no changes to the Fund's risk rating during the reporting period.

Results of Operations

The Fund's net asset value fell to \$9.7 billion as of December 31, 2017, from \$10.4 billion at the end of 2016. The decrease was due mainly to net redemptions.

Over the past year, the Fund's Series O units gained 2.6%, which outperformed the 2.5% rise in the benchmark. The Fund's return is after the deduction of expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

Canadian bonds posted modest returns as the impact of subdued inflation offset interest-rate hikes from the Bank of Canada (the "BOC") and investors perceived that Donald Trump's election as U.S. president would bolster economic growth. Against this backdrop, the

portfolio manager did not have a strong view on the overall direction of bond yields, and therefore kept the Fund's average maturity close to that of its benchmark for most of the period. Overall, this strategy had a neutral impact on relative performance.

Strategies involving corporate and provincial bonds led performance relative to the benchmark during 2017. Corporate bonds benefited, in particular, when the premium required by investors to invest in them fell amid demand for income in a low-yield environment. The strong performance of corporate bonds over the past two years raised valuations to levels that prompted the portfolio manager to reduce exposure in this area to a slight underweight position relative to the benchmark, and to shift the emphasis of the portfolio to higher-quality issuers. Provincial bonds also performed well and exposure was subsequently reduced in this area. Proceeds were used to add to the Fund's holdings of federal-agency bonds, specifically those issued by Canada Housing Trust, which are fully guaranteed by the federal government and offer higher yields than Government of Canada bonds.

Portfolio turnover is normally high for the Fund, as the portfolio manager attempts to generate better returns through active security selection and optimal term exposure.

Recent Developments

Several years of slow global economic growth and resulting growth-enhancing monetary policies have led to historically low global interest rates. However, the portfolio manager believes that interest rates could turn up as central banks lean towards removing stimulus in response to a stronger global economy.

In Canada, stronger-than-expected economic growth in 2017, especially in the first half of the year, prompted the BOC to begin raising its overnight policy rate for the first time in seven years. The BOC, however, continues to emphasize that future rate decisions will depend on whether economic growth is sustained. Investors are pricing in several more rate hikes for 2018, and the portfolio manager will use any significant movements in rates as opportunities to find attractive areas of investment.

Related-Party Transactions

Manager and Portfolio Manager

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank and is the manager and principal portfolio manager of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund. Both the management fee and fixed administration fee are calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund.

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Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and holds title to the Fund's property on behalf of unitholders. RBC IS is the custodian of the Fund and holds the assets of the Fund.

RBC IS earns a fee as the trustee and custodian, which is paid by the manager from the fixed administration fee paid by the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund. The registrars earn a fee, which is paid by the manager from the fixed administration fee paid by the Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Independent Review Committee with respect to one or more of the following transactions:

Related-Party Trading Activities

- (a) trades in securities of Royal Bank;
- (b) investments in the securities of issuers for which a related-party dealer acted as an underwriter during the distribution of such securities and the 60-day period following the conclusion of such distribution of the underwritten securities to the public;
- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal; and

Inter-Fund Trading

- (d) purchases or sales of securities of an issuer from or to another investment fund or managed account managed by RBC GAM.

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²					Net Assets End of Year/Period
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
											Total	
Series A												
Dec. 31, 2017	10.32	0.31	(0.11)	(0.06)	0.03	0.17	(0.21)	—	—	—	(0.21)	10.27
Dec. 31, 2016	10.51	0.34	(0.12)	0.11	(0.18)	0.15	(0.22)	—	(0.12)	—	(0.34)	10.32
Dec. 31, 2015	10.74	0.37	(0.13)	0.23	(0.18)	0.29	(0.24)	—	(0.27)	—	(0.51)	10.51
Dec. 31, 2014	10.21	0.37	(0.12)	0.17	0.42	0.84	(0.24)	—	(0.04)	—	(0.28)	10.74
Dec. 31, 2013	10.65	0.38	(0.12)	(0.02)	(0.42)	(0.18)	(0.25)	—	(0.02)	—	(0.27)	10.19
Advisor Series												
Dec. 31, 2017	10.32	0.31	(0.11)	(0.06)	0.03	0.17	(0.21)	—	—	—	(0.21)	10.28
Dec. 31, 2016	10.52	0.34	(0.12)	0.11	(0.19)	0.14	(0.22)	—	(0.12)	—	(0.34)	10.32
Dec. 31, 2015	10.74	0.37	(0.13)	0.23	(0.18)	0.29	(0.24)	—	(0.27)	—	(0.51)	10.52
Dec. 31, 2014	10.21	0.38	(0.12)	0.17	0.42	0.85	(0.24)	—	(0.04)	—	(0.28)	10.74
Dec. 31, 2013	10.65	0.37	(0.12)	(0.02)	(0.41)	(0.18)	(0.24)	—	(0.02)	—	(0.26)	10.19
Series D												
Dec. 31, 2017	10.23	0.31	(0.06)	(0.05)	0.01	0.21	(0.25)	—	—	—	(0.25)	10.19
Dec. 31, 2016	10.43	0.34	(0.06)	0.11	(0.19)	0.20	(0.27)	—	(0.12)	—	(0.39)	10.23
Dec. 31, 2015	10.65	0.37	(0.07)	0.23	(0.18)	0.35	(0.31)	—	(0.26)	—	(0.57)	10.43
Dec. 31, 2014	10.12	0.37	(0.06)	0.17	0.41	0.89	(0.30)	—	(0.04)	—	(0.34)	10.65
Dec. 31, 2013	10.57	0.37	(0.06)	(0.02)	(0.42)	(0.13)	(0.30)	—	(0.02)	—	(0.32)	10.11
Series F												
Dec. 31, 2017	10.28	0.31	(0.05)	(0.06)	0.02	0.22	(0.26)	—	—	—	(0.26)	10.24
Dec. 31, 2016	10.48	0.34	(0.06)	0.11	(0.21)	0.18	(0.28)	—	(0.12)	—	(0.40)	10.28
Dec. 31, 2015	10.70	0.37	(0.07)	0.23	(0.18)	0.35	(0.30)	—	(0.27)	—	(0.57)	10.48
Dec. 31, 2014	10.17	0.38	(0.06)	0.17	0.42	0.91	(0.30)	—	(0.04)	—	(0.34)	10.70
Dec. 31, 2013	10.62	0.38	(0.06)	(0.02)	(0.42)	(0.12)	(0.30)	—	(0.02)	—	(0.32)	10.16
Series O												
Dec. 31, 2017	10.24	0.31	—	(0.06)	0.02	0.27	(0.31)	—	—	—	(0.31)	10.20
Dec. 31, 2016	10.44	0.34	—	0.11	(0.23)	0.22	(0.34)	—	(0.12)	—	(0.46)	10.24
Dec. 31, 2015	10.67	0.37	—	0.23	(0.18)	0.42	(0.36)	—	(0.27)	—	(0.63)	10.44
Dec. 31, 2014	10.15	0.37	—	0.17	0.41	0.95	(0.38)	—	(0.04)	—	(0.42)	10.67
Dec. 31, 2013	10.60	0.37	—	(0.02)	(0.42)	(0.07)	(0.37)	—	(0.02)	—	(0.39)	10.14

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series A							
Dec. 31, 2017	10.27	80 316	7 818	1.05	1.05	103.50	—
Dec. 31, 2016	10.32	101 217	9 809	1.10 ⁴	1.10	133.52	—
Dec. 31, 2015	10.51	112 560	10 707	1.16	1.16	243.23	—
Dec. 31, 2014	10.74	117 482	10 944	1.16	1.16	232.92	—
Dec. 31, 2013	10.21	143 042	14 017	1.16	1.16	356.05	—
Advisor Series							
Dec. 31, 2017	10.28	38 041	3 701	1.05	1.05	103.50	—
Dec. 31, 2016	10.32	46 859	4 539	1.10 ⁴	1.10	133.52	—
Dec. 31, 2015	10.52	44 408	4 222	1.16	1.16	243.23	—
Dec. 31, 2014	10.74	35 732	3 328	1.16	1.16	232.92	—
Dec. 31, 2013	10.21	34 982	3 428	1.16	1.16	356.05	—
Series D							
Dec. 31, 2017	10.19	548 269	53 814	0.60	0.60	103.50	—
Dec. 31, 2016	10.23	600 761	58 716	0.60	0.60	133.52	—
Dec. 31, 2015	10.43	616 099	59 095	0.60	0.60	243.23	—
Dec. 31, 2014	10.65	622 449	58 463	0.60	0.60	232.92	—
Dec. 31, 2013	10.12	636 614	62 906	0.60	0.60	356.05	—
Series F							
Dec. 31, 2017	10.24	94 337	9 215	0.49	0.49	103.50	—
Dec. 31, 2016	10.28	104 591	10 172	0.54 ⁴	0.54	133.52	—
Dec. 31, 2015	10.48	94 082	8 981	0.60	0.60	243.23	—
Dec. 31, 2014	10.70	78 952	7 380	0.60	0.60	232.92	—
Dec. 31, 2013	10.17	76 377	7 511	0.61	0.61	356.05	—
Series O							
Dec. 31, 2017	10.20	8 983 009	880 544	0.02	0.02	103.50	—
Dec. 31, 2016	10.24	9 531 479	930 497	0.02	0.02	133.52	—
Dec. 31, 2015	10.44	8 009 643	767 022	0.02	0.02	243.23	—
Dec. 31, 2014	10.67	7 782 781	729 576	0.02	0.02	232.92	—
Dec. 31, 2013	10.15	8 931 735	879 564	0.02	0.02	356.05	—

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ Effective June 30, 2016, the management fees were changed in respect of Series A, Advisor Series and Series F units of the Fund. If the changes to the management fees would have been in effect throughout 2016, the adjusted MER for each series of the Fund would be: Series A – 1.05%, Advisor Series – 1.05% and Series F – 0.49%.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio manager of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series A	0.90%	56%	44%
Advisor Series	0.90%	56%	44%
Series D	0.50% [†]	30%	70%
Series F	0.40%	—	100%

Series O – no management fees are paid by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

* Includes all costs related to management, investment advisory services, general administration and profit.

[†] Management fees are calculated at the annual rate of 0.50% of the Series D net asset value, provided that the aggregate of all fees and other expenses (excluding the taxes included therein and commissions incurred in connection with portfolio transactions) paid or payable by Series D does not exceed an amount computed with reference to the following percentages of the net asset value of Series D.

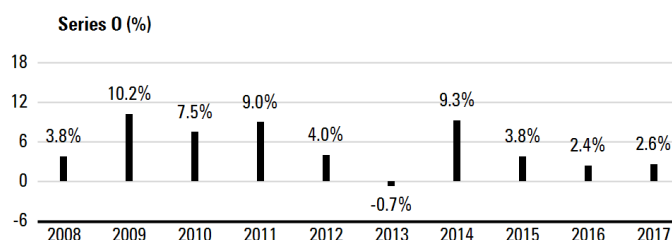
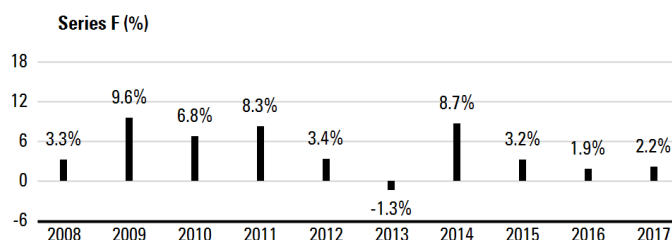
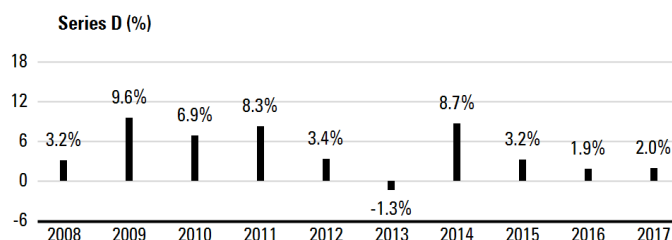
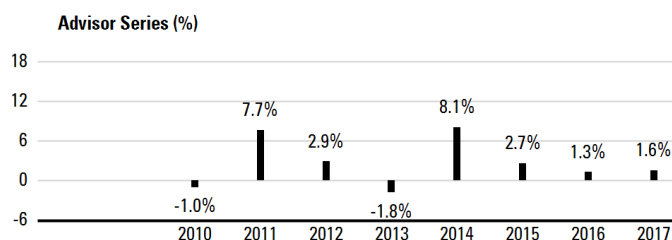
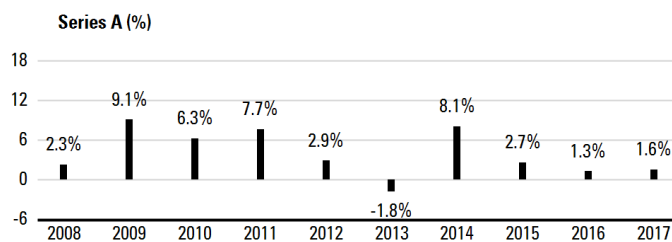
Net Asset Value of Series D	Percentage
Up to \$1 000 000	2.00
From \$1 000 001 up to \$3 000 000	1.75
From \$3 000 001 up to \$5 000 000	1.50
From \$5 000 001 up to \$10 000 000	1.25
From \$10 000 001 up to \$100 000 000	1.00
Over \$100 000 000	0.75

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



PAST PERFORMANCE (cont.)

Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2017, compared with the following benchmark:

FTSE TMX Canada Universe Bond Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	1.6	1.9	2.3	—	4.4
Benchmark	2.5	2.6	3.0	—	4.8
Advisor Series	1.6	1.9	2.3	—	2.9
Benchmark	2.5	2.6	3.0	—	3.8
Series D	2.0	2.4	2.9	4.5	—
Benchmark	2.5	2.6	3.0	4.7	—
Series F	2.2	2.4	2.9	4.6	—
Benchmark	2.5	2.6	3.0	4.7	—
Series O	2.6	3.0	3.5	5.1	—
Benchmark	2.5	2.6	3.0	4.7	—

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Advisor Series units have been available for sale to unitholders since October 2010, and Series A units since November 2008. Effective July 4, 2016, units of the Fund are no longer available for purchase by new investors.

Inception dates are not provided for series that have been in existence for more than 10 years.

All outstanding Series C units were renamed Series A units effective June 30, 2016. Series D was known as Series A prior to November 17, 2008.

INDEX DESCRIPTION

FTSE TMX Canada Universe Bond Index This index is designed as a broad measure of the Canadian investment-grade fixed-income market and includes bonds with maturities of at least one year.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2017

Investment Mix

	% of Net Asset Value
Federal Bonds	40.0
Provincial Bonds	29.0
Corporate Bonds	25.6
Municipal Bonds	1.8
Mortgages	0.6
Mortgage-Backed Bonds	0.1
Cash/Other	2.9

Top 25 Holdings

	% of Net Asset Value
Government of Canada 0.750% Sep 1 2020	4.4
Canada Housing Trust No. 1 2.400% Dec 15 2022	3.6
Government of Canada 1.750% Mar 1 2023	3.1
Province of Ontario 3.500% Jun 2 2043	2.8
Canada Housing Trust No. 1 1.750% Jun 15 2022	2.7
Canada Housing Trust No. 1 1.250% Jun 15 2021	2.7
Province of Ontario 6.200% Jun 2 2031	2.6
Government of Canada 1.500% Jun 1 2023	2.4
Cash & Cash Equivalents	2.4
Government of Canada 3.250% Jun 1 2021	2.3
Province of Ontario 5.600% Jun 2 2035	2.2
Province of Ontario 4.600% Jun 2 2039	2.2
Royal Bank of Canada 1.400% Apr 26 2019	2.2
Province of Ontario 3.500% Jun 2 2024	2.1
Government of Canada 2.750% Dec 1 2048	2.0
Government of Canada 0.750% Mar 1 2021	1.8
Canada Housing Trust No. 1 2.350% Jun 15 2027	1.6
Province of Quebec 8.500% Apr 1 2026	1.5
Government of Canada 1.500% Mar 1 2020	1.4
Government of Canada 1.500% Jun 1 2026	1.4
Canada Housing Trust No. 1 3.350% Dec 15 2020	1.3
Province of Ontario 8.500% Dec 2 2025	1.3
Canada Housing Trust No. 1 1.250% Dec 15 2020	1.2
Canada Housing Trust No. 1 1.500% Dec 15 2021	1.2
Province of Ontario 2.400% Jun 2 2026	1.1
Top 25 Holdings	53.5

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.rbcgam.com/funds, or by emailing us at info@phn.com.

FIXED-INCOME FUND

PHILLIPS, HAGER & NORTH
TOTAL RETURN BOND FUND

 December 31, 2017

Portfolio Manager *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 8, 2018.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE**Investment Objective and Strategies**

The Fund seeks to provide investors with stability of capital by investing primarily in a well-diversified portfolio of fixed-income securities issued primarily by Canadian governments and corporations. It also invests in derivatives. Through a mix of interest income and capital appreciation, the Fund aims to provide a competitive rate of return while controlling the interest rate and credit risks to which it is exposed. To achieve the Fund's investment objective, the portfolio manager invests primarily in medium- to high-quality corporate bonds and government bonds of Canadian, U.S. and other foreign issuers. The Fund may also invest in asset-backed commercial paper to enhance its return (the Fund's weighting in high-yield bonds is generally restricted to a maximum of 20% of its total assets). The average term to maturity of the portfolio is managed within strict guidelines, and typically falls between seven and 12 years.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

Effective June 30, 2017, RBC GAM adopted the risk classification methodology under National Instrument 81-102 – *Investment Funds* (the "new risk classification methodology"). Pursuant to the new risk classification methodology, certain funds' risk ratings were changed. RBC GAM reviews each fund's risk rating on an annual basis or if there has been a material change to a fund's investment objectives or investment strategies. Any changes to a fund's risk rating are the result of RBC GAM's annual review and the adoption of the new risk classification methodology.

There were no changes to the Fund's risk rating during the reporting period.

Results of Operations

The Fund's net asset value rose to \$8.4 billion as of December 31, 2017, from \$8.0 billion at the end of 2016.

Over the past year, the Fund's Series O units gained 2.7%, which outperformed the 2.5% rise in the benchmark. The Fund's return is after the deduction of expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

Canadian bonds posted modest returns as the impact of subdued inflation offset interest-rate hikes from the Bank of Canada (the "BOC") and investors perceived that Donald Trump's election as U.S. president would bolster economic growth. Against this backdrop, the portfolio manager did not have a strong view on the overall direction of bond yields, and therefore kept the Fund's average maturity close to that of its benchmark for most of the period. Overall, this strategy had a neutral impact on relative performance.

Strategies involving corporate and provincial bonds were important for performance relative to the benchmark during 2017. Corporate bonds benefited, in particular, when the premium required by investors to invest in them fell amid demand for income in a low-yield environment. The strong performance of corporate bonds over the past two years raised valuations to levels that prompted the portfolio manager to reduce exposure in this area to a slight underweight position relative to the benchmark, and to shift the emphasis of the portfolio to higher-quality issuers. Provincial bonds also performed well and exposure was subsequently reduced in this area. Proceeds were used to add to the Fund's holdings of federal-agency bonds, specifically those issued by Canada Housing Trust, which are fully guaranteed by the federal government and offer higher yields than Government of Canada bonds.

The Fund eliminated its position in high-yield bonds midway through 2017 in the belief that investors were no longer being adequately compensated for risks associated with these investments in the current economic environment. High-yield bonds were meaningful contributors to performance before being eliminated from the portfolio.

Portfolio turnover is normally high for the Fund, as the portfolio manager attempts to generate better returns through active security selection and optimal term exposure.

Recent Developments

Several years of slow global economic growth and resulting growth-enhancing monetary policies have led to historically low global interest rates. However, the portfolio manager believes that interest rates could turn up as central banks lean towards removing stimulus in response to a stronger global economy.

In Canada, stronger-than-expected economic growth in 2017, especially in the first half of the year, prompted the BOC to begin raising its overnight policy rate for the first time in seven years. The BOC, however, continues to emphasize that future rate decisions will depend on whether economic growth is sustained. Investors are pricing in several more rate hikes for 2018, and the portfolio manager will use any significant movements in rates as opportunities to find attractive areas of investment.

Related-Party Transactions***Manager and Portfolio Manager***

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank and is the manager and principal portfolio manager of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund. Both the management fee and fixed administration fee are calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund.

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies. The Fund also maintains bank accounts and overdraft provisions with Royal Bank for which Royal Bank may earn a fee. Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series A, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and holds title to the Fund's property on behalf of unitholders. RBC IS is the custodian of the Fund and holds the assets of the Fund.

RBC IS earns a fee as the trustee and custodian, which is paid by the manager from the fixed administration fee paid by the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund. The registrars earn a fee, which is paid by the manager from the fixed administration fee paid by the Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Independent Review Committee with respect to one or more of the following transactions:

Related-Party Trading Activities

(a) trades in securities of Royal Bank;

- (b) investments in the securities of issuers for which a related-party dealer acted as an underwriter during the distribution of such securities and the 60-day period following the conclusion of such distribution of the underwritten securities to the public;
- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal; and

Inter-Fund Trading

- (d) purchases or sales of securities of an issuer from or to another investment fund or managed account managed by RBC GAM.

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²					Net Assets End of Year/Period
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series A												
Dec. 31, 2017	11.34	0.35	(0.12)	(0.06)	0.02	0.19	(0.23)	—	—	—	(0.23)	11.30
Dec. 31, 2016	11.52	0.38	(0.13)	0.12	(0.22)	0.15	(0.24)	—	(0.14)	—	(0.38)	11.34
Dec. 31, 2015	11.69	0.40	(0.14)	0.16	(0.17)	0.25	(0.25)	—	(0.22)	—	(0.47)	11.52
Dec. 31, 2014	11.12	0.47	(0.13)	0.15	0.46	0.95	(0.27)	—	(0.05)	—	(0.32)	11.69
Dec. 31, 2013	11.69	0.43	(0.13)	0.05	(0.54)	(0.19)	(0.31)	—	(0.09)	—	(0.40)	11.11
Advisor Series												
Dec. 31, 2017	11.35	0.35	(0.12)	(0.06)	0.01	0.18	(0.23)	—	—	—	(0.23)	11.31
Dec. 31, 2016	11.53	0.38	(0.13)	0.12	(0.22)	0.15	(0.24)	—	(0.14)	—	(0.38)	11.35
Dec. 31, 2015	11.69	0.40	(0.14)	0.16	(0.17)	0.25	(0.25)	—	(0.21)	—	(0.46)	11.53
Dec. 31, 2014	11.13	0.46	(0.13)	0.15	0.46	0.94	(0.26)	—	(0.05)	—	(0.31)	11.69
Dec. 31, 2013	11.69	0.43	(0.13)	0.05	(0.54)	(0.19)	(0.31)	—	(0.09)	—	(0.40)	11.11
Series D												
Dec. 31, 2017	11.34	0.35	(0.07)	(0.06)	0.02	0.24	(0.28)	—	—	—	(0.28)	11.31
Dec. 31, 2016	11.52	0.38	(0.07)	0.12	(0.19)	0.24	(0.30)	—	(0.14)	—	(0.44)	11.34
Dec. 31, 2015	11.69	0.40	(0.07)	0.16	(0.17)	0.32	(0.32)	—	(0.21)	—	(0.53)	11.52
Dec. 31, 2014	11.12	0.46	(0.07)	0.15	0.46	1.00	(0.33)	—	(0.05)	—	(0.38)	11.69
Dec. 31, 2013	11.68	0.43	(0.07)	0.05	(0.54)	(0.13)	(0.38)	—	(0.09)	—	(0.47)	11.10
Series F												
Dec. 31, 2017	11.36	0.35	(0.06)	(0.06)	—	0.23	(0.29)	—	—	—	(0.29)	11.32
Dec. 31, 2016	11.53	0.37	(0.06)	0.12	(0.32)	0.11	(0.31)	—	(0.14)	—	(0.45)	11.36
Dec. 31, 2015	11.70	0.40	(0.07)	0.16	(0.17)	0.32	(0.32)	—	(0.21)	—	(0.53)	11.53
Dec. 31, 2014	11.13	0.47	(0.07)	0.15	0.47	1.02	(0.33)	—	(0.05)	—	(0.38)	11.70
Dec. 31, 2013	11.70	0.44	(0.07)	0.05	(0.54)	(0.12)	(0.38)	—	(0.09)	—	(0.47)	11.12
Series O												
Dec. 31, 2017	11.29	0.35	—	(0.06)	0.01	0.30	(0.34)	—	—	—	(0.34)	11.25
Dec. 31, 2016	11.47	0.37	—	0.12	(0.17)	0.32	(0.37)	—	(0.15)	—	(0.52)	11.29
Dec. 31, 2015	11.63	0.40	—	0.16	(0.17)	0.39	(0.39)	—	(0.20)	—	(0.59)	11.47
Dec. 31, 2014	11.06	0.40	—	0.12	0.39	0.91	(0.39)	—	(0.05)	—	(0.44)	11.63
Dec. 31, 2013	11.62	0.43	—	0.05	(0.54)	(0.06)	(0.44)	—	(0.09)	—	(0.53)	11.05

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series A							
Dec. 31, 2017	11.30	146 640	12 974	1.05	1.05	99.33	—
Dec. 31, 2016	11.34	169 245	14 922	1.10 ⁴	1.10	132.94	—
Dec. 31, 2015	11.52	153 976	13 367	1.16	1.16	218.83	—
Dec. 31, 2014	11.69	166 803	14 272	1.16	1.16	256.07	—
Dec. 31, 2013	11.12	172 400	15 497	1.16	1.16	283.61	—
Advisor Series							
Dec. 31, 2017	11.31	108 975	9 631	1.05	1.05	99.33	—
Dec. 31, 2016	11.35	111 224	9 796	1.10 ⁴	1.10	132.94	—
Dec. 31, 2015	11.53	94 165	8 167	1.16	1.16	218.83	—
Dec. 31, 2014	11.69	98 269	8 404	1.16	1.16	256.07	—
Dec. 31, 2013	11.13	98 849	8 885	1.16	1.16	283.61	—
Series D							
Dec. 31, 2017	11.31	575 829	50 929	0.58	0.58	99.33	—
Dec. 31, 2016	11.34	583 467	51 440	0.58	0.58	132.94	—
Dec. 31, 2015	11.52	543 855	47 207	0.58	0.58	218.83	—
Dec. 31, 2014	11.69	527 221	45 109	0.59	0.59	256.07	—
Dec. 31, 2013	11.12	487 125	43 821	0.59	0.59	283.61	—
Series F							
Dec. 31, 2017	11.32	921 153	81 375	0.50	0.50	99.33	—
Dec. 31, 2016	11.36	801 893	70 615	0.55 ⁴	0.55	132.94	—
Dec. 31, 2015	11.53	462 345	40 085	0.61	0.61	218.83	—
Dec. 31, 2014	11.70	339 951	29 051	0.61	0.61	256.07	—
Dec. 31, 2013	11.13	334 696	30 066	0.61	0.61	283.61	—
Series O							
Dec. 31, 2017	11.25	6 692 283	594 987	0.02	0.02	99.33	—
Dec. 31, 2016	11.29	6 316 953	559 740	0.02	0.02	132.94	—
Dec. 31, 2015	11.47	6 103 380	532 024	0.02	0.02	218.83	—
Dec. 31, 2014	11.63	4 777 705	410 781	0.02	0.02	256.07	—
Dec. 31, 2013	11.06	1 526 426	137 995	0.02	0.02	283.61	—

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ Effective June 30, 2016, the management fees were changed in respect of Series A, Advisor Series and Series F units of the Fund. If the changes to the management fees would have been in effect throughout 2016, the adjusted MER for each series of the Fund would be: Series A – 1.05%, Advisor Series – 1.05% and Series F – 0.50%.

FINANCIAL HIGHLIGHTS (cont.)**Management Fees**

RBC GAM is the manager and portfolio manager of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series A	0.90%	56%	44%
Advisor Series	0.90%	56%	44%
Series D	0.50%	30%	70%
Series F	0.40%	—	100%

Series O – no management fees are paid by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

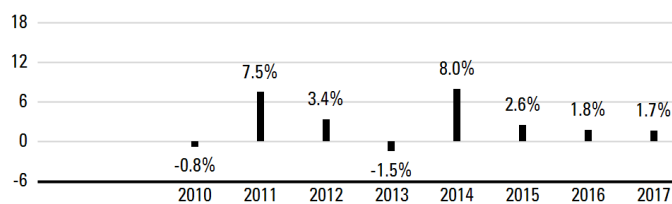
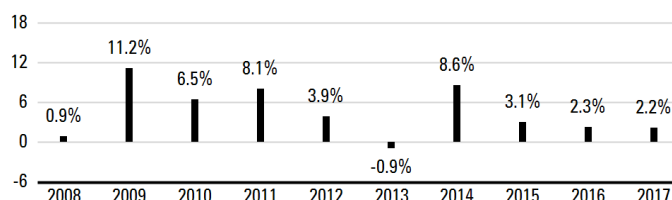
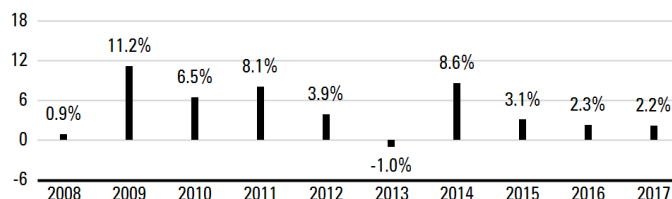
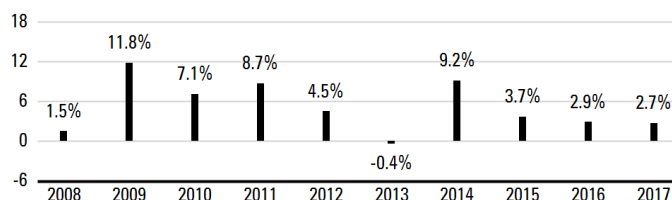
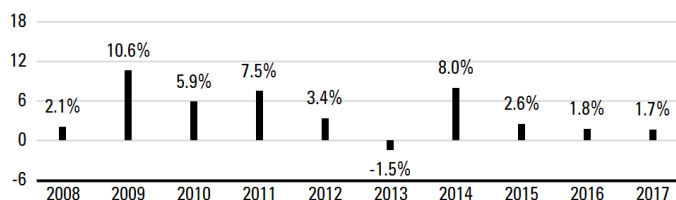
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.

Advisor Series (%)**Series D (%)****Series F (%)****Series O (%)****Series A (%)**

PAST PERFORMANCE (cont.)**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2017, compared with the following benchmark:

FTSE TMX Canada Universe Bond Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	1.7	2.0	2.4	—	4.6
Benchmark	2.5	2.6	3.0	—	4.8
Advisor Series	1.7	2.0	2.5	—	3.1
Benchmark	2.5	2.6	3.0	—	3.8
Series D	2.2	2.5	3.0	4.5	—
Benchmark	2.5	2.6	3.0	4.7	—
Series F	2.2	2.6	3.0	4.5	—
Benchmark	2.5	2.6	3.0	4.7	—
Series O	2.7	3.1	3.6	5.1	—
Benchmark	2.5	2.6	3.0	4.7	—

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Advisor Series units have been available for sale to unitholders since October 2010, and Series A units since November 2008.

Inception dates are not provided for series that have been in existence for more than 10 years.

All outstanding Series H units were re-designated as Series C units and then immediately renamed Series A units effective June 30, 2016. All outstanding Series I units were re-designated as Series F units effective June 30, 2016. Series D was known as Series A prior to November 17, 2008.

INDEX DESCRIPTION

FTSE TMX Canada Universe Bond Index This index is designed as a broad measure of the Canadian investment-grade fixed-income market and includes bonds with maturities of at least one year.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2017

Investment Mix

	% of Net Asset Value
Federal Bonds	41.4
Provincial Bonds	29.6
Corporate Bonds	24.9
Municipal Bonds	1.1
Mortgages	0.2
Cash/Other	2.8

Top 25 Holdings

	% of Net Asset Value
Government of Canada 0.750% Sep 1 2020	5.1
Canada Housing Trust No. 1 1.750% Jun 15 2022	3.9
Canada Housing Trust No. 1 2.400% Dec 15 2022	3.8
Province of Ontario 6.200% Jun 2 2031	2.7
Province of Ontario 3.500% Jun 2 2043	2.6
Province of Ontario 3.500% Jun 2 2024	2.6
Cash & Cash Equivalents	2.4
Government of Canada 1.750% Mar 1 2023	2.4
Province of Ontario 4.600% Jun 2 2039	2.3
Canada Housing Trust No. 1 1.250% Jun 15 2021	2.2
Government of Canada 3.250% Jun 1 2021	2.0
Government of Canada 1.500% Jun 1 2023	1.8
Government of Canada 0.750% Mar 1 2021	1.7
Government of Canada 2.750% Dec 1 2048	1.7
Government of Canada 1.500% Mar 1 2020	1.7
Province of Quebec 8.500% Apr 1 2026	1.6
Government of Canada 1.250% Feb 1 2020	1.6
Province of Ontario 5.600% Jun 2 2035	1.6
Government of Canada 3.500% Jun 1 2020	1.5
Canada Housing Trust No. 1 2.350% Jun 15 2027	1.4
Province of Ontario 2.900% Dec 2 2046	1.2
Province of Alberta 2.350% Jun 1 2025	1.1
Government of Canada 1.500% Jun 1 2026	1.0
Canada Housing Trust No. 1 1.500% Dec 15 2021	1.0
Royal Bank of Canada 1.400% Apr 26 2019	1.0
Top 25 Holdings	51.9

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.rbcgam.com/funds, or by emailing us at info@phn.com.

FIXED-INCOME FUND

PHILLIPS, HAGER & NORTH
INFLATION-LINKED BOND FUND

 December 31, 2017

Portfolio Manager *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 8, 2018.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE**Investment Objective and Strategies**

The Fund seeks to generate inflation-protected interest income to help investors preserve their real (or inflation-adjusted) purchasing power over the long term. To achieve the Fund's investment objective, the portfolio manager invests primarily in real return bonds and inflation-linked bonds issued or guaranteed by Canadian and foreign governments and corporations, including Canadian Real Return Bonds ("RRBs") and U.S. issued Treasury Inflation Protected Securities ("TIPs").

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

Effective June 30, 2017, RBC GAM adopted the risk classification methodology under National Instrument 81-102 – *Investment Funds* (the "new risk classification methodology"). Pursuant to the new risk classification methodology, certain funds' risk ratings were changed. RBC GAM reviews each fund's risk rating on an annual basis or if there has been a material change to a fund's investment objectives or investment strategies. Any changes to a fund's risk rating are the result of RBC GAM's annual review and the adoption of the new risk classification methodology.

There were no changes to the Fund's risk rating during the reporting period.

Results of Operations

The Fund's net asset value rose to \$93 million as of December 31, 2017, from \$83 million at the end of 2016. The increase was due to net inflows.

Over the past year, the Fund's Series O units gained 1.6%, which outperformed the 0.7% rise in the benchmark. The Fund's return is after the deduction of expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

Real (adjusted for inflation) interest rates were volatile in 2017. Continued improvement in economic growth and expectations for higher inflation resulted in the Bank of Canada (the "BOC") increasing its benchmark interest rate twice during the year. As a result, long-term real interest rates moved higher for much of 2017. Towards the end of 2017, real interest rates fell close to where they started the year as economic growth moderated and inflation stayed below the BOC's target.

In this environment, the portfolio manager kept the Fund's average term to maturity roughly in line with the benchmark. The portfolio manager was able to boost relative returns by buying inflation-linked bonds that were, in its view, underpriced. In addition, the Fund held small allocations in provincial and corporate inflation-linked bonds, which have a higher yield than Government of Canada bonds and contributed to performance. The scarcity of provincial and corporate inflation-linked bonds limited opportunities in these assets.

The Fund was very active in attempting to capitalize on market volatility.

Recent Developments

Several years of slow global economic growth and resulting growth-enhancing monetary policies have led to historically low global interest rates. However, the portfolio manager believes that interest rates could turn up as central banks lean towards removing stimulus in response to a stronger global economy.

In Canada, stronger-than-expected economic growth in 2017, especially in the first half of the year, prompted the BOC to begin raising its overnight policy rate for the first time in seven years. The BOC, however, continues to emphasize that future rate decisions will depend on whether economic growth is sustained. Investors are pricing in several more rate hikes for 2018, and the portfolio manager will use any significant movements in rates as opportunities to find attractive areas of investment.

Related-Party Transactions***Manager and Portfolio Manager***

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank and is the manager and principal portfolio manager of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund. Both the management fee and fixed administration fee are calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund.

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies. The Fund also maintains bank accounts and overdraft provisions with Royal Bank for which Royal Bank may earn a fee. Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series A, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and holds title to the Fund's property on behalf of unitholders. RBC IS is the custodian of the Fund and holds the assets of the Fund.

RBC IS earns a fee as the trustee and custodian, which is paid by the manager from the fixed administration fee paid by the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund. The registrars earn a fee, which is paid by the manager from the fixed administration fee paid by the Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Independent Review Committee with respect to one or more of the following transactions:

Related-Party Trading Activities

- (a) trades in securities of Royal Bank;
- (b) investments in the securities of issuers for which a related-party dealer acted as an underwriter during the distribution of such securities and the 60-day period following the conclusion of such distribution of the underwritten securities to the public;
- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal; and

Inter-Fund Trading

- (d) purchases or sales of securities of an issuer from or to another investment fund or managed account managed by RBC GAM.

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²					Net Assets End of Year/Period
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series A												
Dec. 31, 2017	11.27	2.63	(0.10)	(0.28)	(2.20)	0.05	(0.29)	—	—	(2.11)	(2.40)	8.94
Dec. 31, 2016	11.13	0.25	(0.11)	0.23	(0.07)	0.30	(0.15)	—	—	—	(0.15)	11.27
Dec. 31, 2015	10.99	0.31	(0.11)	(0.36)	0.46	0.30	(0.21)	—	—	—	(0.21)	11.13
Dec. 31, 2014	10.24	0.71	(0.10)	(1.00)	1.82	1.43	(0.61)	—	—	—	(0.61)	10.99
Dec. 31, 2013	12.54	0.54	(0.11)	(1.75)	(0.48)	(1.80)	(0.53)	—	—	—	(0.53)	10.23
Advisor Series												
Dec. 31, 2017	11.28	2.64	(0.10)	(0.28)	(2.21)	0.05	(0.29)	—	—	(2.12)	(2.41)	8.94
Dec. 31, 2016	11.13	0.25	(0.11)	0.23	(0.10)	0.27	(0.15)	—	—	—	(0.15)	11.28
Dec. 31, 2015	10.99	0.31	(0.11)	(0.36)	0.46	0.30	(0.20)	—	—	—	(0.20)	11.13
Dec. 31, 2014	10.24	0.71	(0.10)	(1.00)	1.82	1.43	(0.61)	—	—	—	(0.61)	10.99
Dec. 31, 2013	12.54	0.51	(0.11)	(1.67)	(0.46)	(1.73)	(0.53)	—	—	—	(0.53)	10.22
Series D												
Dec. 31, 2017	11.33	2.65	(0.06)	(0.28)	(2.21)	0.10	(0.30)	—	—	(2.15)	(2.45)	9.00
Dec. 31, 2016	11.17	0.25	(0.06)	0.23	(0.12)	0.30	(0.18)	—	—	—	(0.18)	11.33
Dec. 31, 2015	11.03	0.31	(0.06)	(0.36)	0.47	0.36	(0.25)	—	—	—	(0.25)	11.17
Dec. 31, 2014	10.29	0.72	(0.06)	(1.01)	1.85	1.50	(0.67)	—	—	—	(0.67)	11.03
Dec. 31, 2013	12.61	0.54	(0.06)	(1.78)	(0.49)	(1.79)	(0.59)	—	—	—	(0.59)	10.27
Series F												
Dec. 31, 2017	11.31	2.63	(0.04)	(0.28)	(2.16)	0.15	(0.30)	—	—	(2.16)	(2.46)	8.98
Dec. 31, 2016	11.15	0.25	(0.04)	0.23	(0.17)	0.27	(0.20)	—	—	—	(0.20)	11.31
Dec. 31, 2015	11.01	0.31	(0.04)	(0.36)	0.47	0.38	(0.27)	—	—	—	(0.27)	11.15
Dec. 31, 2014	10.27	0.71	(0.04)	(1.00)	1.82	1.49	(0.69)	—	—	—	(0.69)	11.01
Dec. 31, 2013	12.60	0.55	(0.04)	(1.78)	(0.49)	(1.76)	(0.61)	—	—	—	(0.61)	10.25
Series O												
Dec. 31, 2017	11.41	2.65	—	(0.28)	(2.14)	0.23	(0.30)	—	—	(2.21)	(2.51)	9.07
Dec. 31, 2016	11.25	0.25	—	0.23	(0.13)	0.35	(0.24)	—	—	—	(0.24)	11.41
Dec. 31, 2015	11.10	0.31	—	(0.36)	0.47	0.42	(0.31)	—	—	—	(0.31)	11.25
Dec. 31, 2014	10.35	0.72	—	(1.01)	1.85	1.56	(0.73)	—	—	—	(0.73)	11.10
Dec. 31, 2013	12.69	0.57	—	(1.85)	(0.51)	(1.79)	(0.65)	—	—	—	(0.65)	10.34

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series A							
Dec. 31, 2017	8.94	11 693	1 307	0.93	0.93	7 114.30	—
Dec. 31, 2016	11.27	13 503	1 198	0.93	0.93	7 750.88	—
Dec. 31, 2015	11.13	14 992	1 347	0.93	0.93	1 690.92	—
Dec. 31, 2014	10.99	18 486	1 751	0.94	0.94	836.48	—
Dec. 31, 2013	10.24	26 592	2 597	0.93	0.93	496.60	—
Advisor Series							
Dec. 31, 2017	8.94	1 640	183	0.93	0.93	7 114.30	—
Dec. 31, 2016	11.28	2 043	181	0.93	0.93	7 750.88	—
Dec. 31, 2015	11.13	1 927	173	0.93	0.93	1 690.92	—
Dec. 31, 2014	10.99	2 094	198	0.94	0.94	836.48	—
Dec. 31, 2013	10.24	3 123	305	0.93	0.93	496.60	—
Series D							
Dec. 31, 2017	9.00	12 403	1 379	0.55	0.55	7 114.30	—
Dec. 31, 2016	11.33	15 645	1 381	0.55	0.55	7 750.88	—
Dec. 31, 2015	11.17	14 665	1 312	0.55	0.55	1 690.92	—
Dec. 31, 2014	11.03	15 239	1 438	0.55	0.55	836.48	—
Dec. 31, 2013	10.29	15 575	1 514	0.55	0.55	496.60	—
Series F							
Dec. 31, 2017	8.98	8 934	994	0.37	0.37	7 114.30	—
Dec. 31, 2016	11.31	8 423	745	0.38	0.38	7 750.88	—
Dec. 31, 2015	11.15	8 174	733	0.38	0.38	1 690.92	—
Dec. 31, 2014	11.01	7 793	737	0.39	0.39	836.48	—
Dec. 31, 2013	10.27	12 557	1 223	0.39	0.39	496.60	—
Series O							
Dec. 31, 2017	9.07	58 740	6 477	0.02	0.02	7 114.30	—
Dec. 31, 2016	11.41	43 870	3 846	0.03	0.03	7 750.88	—
Dec. 31, 2015	11.25	35 289	3 139	0.03	0.03	1 690.92	—
Dec. 31, 2014	11.10	18 250	1 711	0.03	0.03	836.48	—
Dec. 31, 2013	10.35	26 918	2 600	0.02	0.02	496.60	—

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

FINANCIAL HIGHLIGHTS (cont.)**Management Fees**

RBC GAM is the manager and portfolio manager of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series A	0.80%	63%	37%
Advisor Series	0.80%	63%	37%
Series D	0.45%	33%	67%
Series F	0.30%	—	100%

Series O – no management fees are paid by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

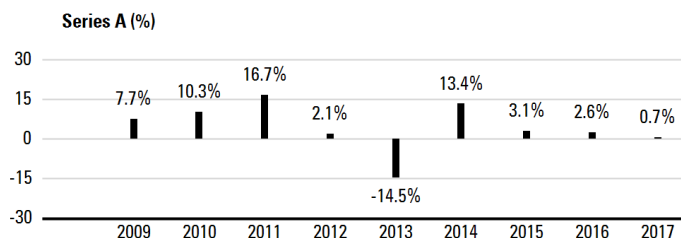
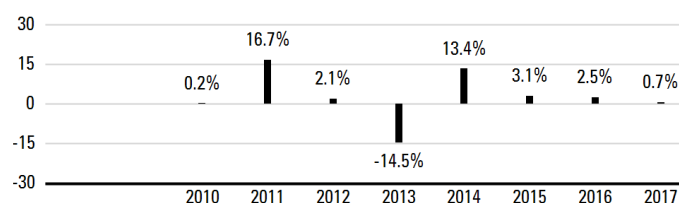
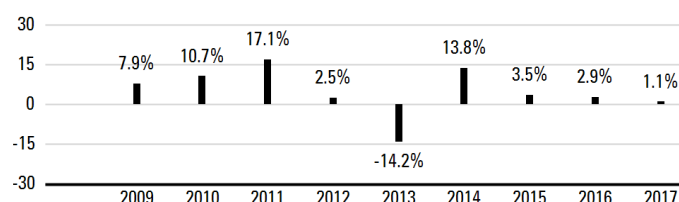
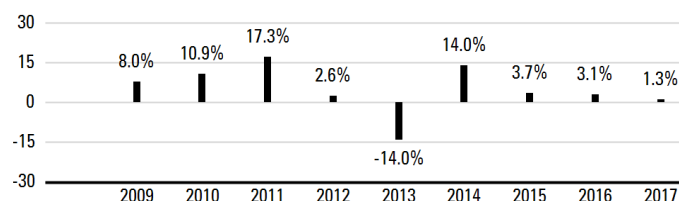
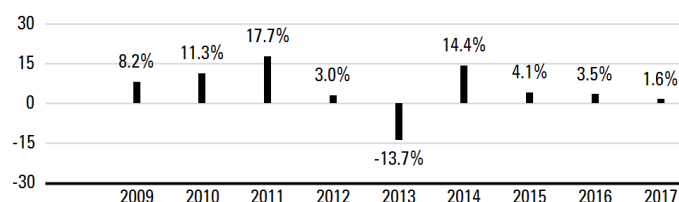
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.

**Advisor Series (%)****Series D (%)****Series F (%)****Series O (%)**

PAST PERFORMANCE (cont.)**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2017, compared with the following benchmark:

FTSE TMX Canada Real Return Bond Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	0.7	2.1	0.6	—	4.6
Benchmark	0.7	2.1	0.9	—	5.1
Advisor Series	0.7	2.1	0.6	—	3.0
Benchmark	0.7	2.1	0.9	—	3.5
Series D	1.1	2.5	1.0	—	5.0
Benchmark	0.7	2.1	0.9	—	5.1
Series F	1.3	2.7	1.2	—	5.1
Benchmark	0.7	2.1	0.9	—	5.1
Series O	1.6	3.1	1.6	—	5.5
Benchmark	0.7	2.1	0.9	—	5.1

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Advisor Series units have been available for sale to unitholders since October 2010, and Series A, Series D, Series F and Series O units since June 2009.

Inception dates are not provided for series that have been in existence for more than 10 years.

All outstanding Series C units were renamed Series A units effective June 30, 2016.

INDEX DESCRIPTION

FTSE TMX Canada Real Return Bond Index This index is a broad measure of the performance of Canadian inflation-indexed real return bonds.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2017

Investment Mix

	% of Net Asset Value
Federal Bonds	80.0
Provincial Bonds	19.7
Cash/Other	0.3

Top 25 Holdings*

	% of Net Asset Value
Government of Canada 4.000% Dec 1 2031	20.6
Government of Canada 4.250% Dec 1 2021	13.6
Government of Canada 0.500% Dec 1 2050	12.4
Government of Canada 2.000% Dec 1 2041	11.0
Province of Quebec 4.500% Dec 1 2021	10.8
Government of Canada 1.500% Dec 1 2044	8.8
Government of Canada 1.250% Dec 1 2047	8.0
Government of Canada 3.000% Dec 1 2036	5.7
Province of Ontario 2.000% Dec 1 2036	4.1
Province of Quebec 4.250% Dec 1 2031	2.7
Province of Quebec 4.500% Dec 1 2026	2.2
Cash & Cash Equivalents	0.1
Government of Canada 2.750% Dec 1 2048	—
Government of Canada 3.500% Dec 1 2045	—
Government of Canada 0.750% Sep 1 2021	—
Government of Canada 1.500% Jun 1 2026	—
Total	100.0

* The Fund holds fewer than 25 holdings.

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.rbcgam.com/funds, or by emailing us at info@phn.com.

FIXED-INCOME FUND

PHILLIPS, HAGER & NORTH
HIGH YIELD BOND FUND

 December 31, 2017

Portfolio Manager *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 8, 2018.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to provide investors with a high level of income and the opportunity for capital appreciation by investing primarily in medium quality Canadian and/or foreign corporate bonds, convertible bonds, preferred shares and government bonds issued or traded in Canadian and U.S. dollars. In addition, the portfolio manager may also invest in asset backed commercial paper. The average term to maturity of the portfolio is managed within strict guidelines, typically between three and 10 years.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

Effective June 30, 2017, RBC GAM adopted the risk classification methodology under National Instrument 81-102 – *Investment Funds* (the "new risk classification methodology"). Pursuant to the new risk classification methodology, certain funds' risk ratings were changed. RBC GAM reviews each fund's risk rating on an annual basis or if there has been a material change to a fund's investment objectives or investment strategies. Any changes to a fund's risk rating are the result of RBC GAM's annual review and the adoption of the new risk classification methodology.

Effective June 30, 2017, the Fund's risk rating changed from low-to-medium to low.

Results of Operations

The Fund's net asset value fell to \$4.0 billion as of December 31, 2017, from \$4.1 billion at the end of 2016. The decrease was due to net redemptions, partially offset by investment returns.

Over the past year, the Fund's Series O units gained 6.9%, which outperformed the 2.5% rise in the benchmark. The Fund's return is after the deduction of expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

The Fund outperformed its benchmark due to the mix of bond investments in the portfolio. The Fund's allocation to high-yield Canadian energy bonds decreased throughout the year as a number of issuers redeemed their bonds. The portfolio manager anticipated that this would be the case and kept such bonds in the portfolio to benefit from yields that were attractive given modest credit and interest-rate risks. The Fund maintained an unconventional structure,

with a large foundation of cash, cash equivalents and short-duration investment-grade corporate and government bonds to provide stability and liquidity. There was a core selection of Canadian high-yield securities and a few higher-yielding positions in both energy and non-energy sectors, to provide some capital appreciation. This portfolio structure was designed to provide the right balance of low interest-rate sensitivity, manageable credit risk, liquidity and reasonable running yields.

Portfolio turnover was high during the period as the portfolio manager sought to take advantage of investment opportunities.

Recent Developments

Several years of slow global economic growth and resulting growth-enhancing monetary policies have led to historically low global interest rates. However, the portfolio manager believes that interest rates could turn up as central banks lean towards removing stimulus in response to a stronger global economy.

In Canada, stronger-than-expected economic growth in 2017, especially in the first half of the year, prompted the Bank of Canada (the "BOC") to begin raising its overnight policy rate for the first time in seven years. The BOC, however, continues to emphasize that future rate decisions will depend on whether economic growth is sustained. Investors are pricing in several more rate hikes for 2018, and the portfolio manager will use any significant movements in rates as opportunities to find attractive areas of investment.

In the view of the portfolio manager, valuations appear reasonable in the current environment of historically low default rates and historically low Treasury yields. However, in the view of the portfolio manager, high-yield bond prices appear somewhat expensive given growing political risks and the potential for more U.S. interest-rate increases.

Related-Party Transactions

Manager and Portfolio Manager

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank and is the manager and principal portfolio manager of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund. Both the management fee and fixed administration fee are calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund.

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange spread when unitholders switch between series of funds denominated

in different currencies. The Fund also maintains bank accounts and overdraft provisions with Royal Bank for which Royal Bank may earn a fee. Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series A, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and holds title to the Fund's property on behalf of unitholders. RBC IS is the custodian of the Fund and holds the assets of the Fund.

RBC IS earns a fee as the trustee and custodian, which is paid by the manager from the fixed administration fee paid by the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund. The registrars earn a fee, which is paid by the manager from the fixed administration fee paid by the Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Independent Review Committee with respect to one or more of the following transactions:

Related-Party Trading Activities

- (a) trades in securities of Royal Bank;
- (b) investments in the securities of issuers for which a related-party dealer acted as an underwriter during the distribution of such securities and the 60-day period following the conclusion of such distribution of the underwritten securities to the public;
- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal; and

Inter-Fund Trading

- (d) purchases or sales of securities of an issuer from or to another investment fund or managed account managed by RBC GAM.

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²					Net Assets End of Year/Period
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series A												
Dec. 31, 2017	12.16	0.68	(0.18)	0.32	(0.17)	0.65	(0.51)	—	(0.30)	—	(0.81)	11.99
Dec. 31, 2016	10.97	0.72	(0.17)	0.25	0.99	1.79	(0.53)	—	(0.09)	—	(0.62)	12.16
Dec. 31, 2015	11.97	0.77	(0.17)	(0.05)	(0.95)	(0.40)	(0.60)	—	—	—	(0.60)	10.97
Dec. 31, 2014	12.18	0.81	(0.18)	(0.06)	(0.18)	0.39	(0.62)	—	—	—	(0.62)	11.97
Dec. 31, 2013	12.19	0.76	(0.18)	0.02	(0.06)	0.54	(0.58)	—	—	—	(0.58)	12.14
Advisor Series												
Dec. 31, 2017	12.16	0.68	(0.18)	0.32	(0.17)	0.65	(0.51)	—	(0.31)	—	(0.82)	11.99
Dec. 31, 2016	10.97	0.71	(0.17)	0.25	1.10	1.89	(0.53)	—	(0.09)	—	(0.62)	12.16
Dec. 31, 2015	11.97	0.77	(0.17)	(0.05)	(0.95)	(0.40)	(0.60)	—	—	—	(0.60)	10.97
Dec. 31, 2014	12.18	0.80	(0.18)	(0.06)	(0.17)	0.39	(0.62)	—	—	—	(0.62)	11.97
Dec. 31, 2013	12.19	0.67	(0.18)	0.01	(0.06)	0.44	(0.58)	—	—	—	(0.58)	12.14
Series D												
Dec. 31, 2017	12.02	0.67	(0.11)	0.32	(0.17)	0.71	(0.58)	—	(0.30)	—	(0.88)	11.85
Dec. 31, 2016	10.85	0.71	(0.10)	0.25	0.98	1.84	(0.59)	—	(0.09)	—	(0.68)	12.02
Dec. 31, 2015	11.84	0.77	(0.10)	(0.05)	(0.94)	(0.32)	(0.67)	—	—	—	(0.67)	10.85
Dec. 31, 2014	12.06	0.80	(0.11)	(0.06)	(0.18)	0.45	(0.69)	—	—	—	(0.69)	11.84
Dec. 31, 2013	12.07	0.75	(0.11)	0.02	(0.06)	0.60	(0.65)	—	—	—	(0.65)	12.02
Series F												
Dec. 31, 2017	12.09	0.67	(0.11)	0.32	(0.17)	0.71	(0.58)	—	(0.30)	—	(0.88)	11.91
Dec. 31, 2016	10.91	0.71	(0.10)	0.25	1.09	1.95	(0.60)	—	(0.09)	—	(0.69)	12.09
Dec. 31, 2015	11.91	0.77	(0.11)	(0.05)	(0.95)	(0.34)	(0.67)	—	—	—	(0.67)	10.91
Dec. 31, 2014	12.12	0.81	(0.11)	(0.06)	(0.18)	0.46	(0.69)	—	—	—	(0.69)	11.91
Dec. 31, 2013	12.14	0.75	(0.11)	0.02	(0.06)	0.60	(0.65)	—	—	—	(0.65)	12.08
Series O												
Dec. 31, 2017	11.59	0.65	—	0.30	(0.17)	0.78	(0.65)	—	(0.29)	—	(0.94)	11.43
Dec. 31, 2016	10.47	0.68	—	0.24	1.06	1.98	(0.67)	—	(0.09)	—	(0.76)	11.59
Dec. 31, 2015	11.43	0.74	—	(0.04)	(0.91)	(0.21)	(0.74)	—	—	—	(0.74)	10.47
Dec. 31, 2014	11.64	0.78	—	(0.06)	(0.17)	0.55	(0.77)	—	—	—	(0.77)	11.43
Dec. 31, 2013	11.66	0.72	—	0.02	(0.06)	0.68	(0.73)	—	—	—	(0.73)	11.61

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series A							
Dec. 31, 2017	11.99	248 583	20 724	1.43	1.43	116.27	—
Dec. 31, 2016	12.16	276 968	22 771	1.44	1.44	65.06	—
Dec. 31, 2015	10.97	281 732	25 678	1.44	1.44	108.96	—
Dec. 31, 2014	11.97	390 812	32 643	1.44	1.44	92.99	—
Dec. 31, 2013	12.18	404 326	33 203	1.44	1.44	100.39	—
Advisor Series							
Dec. 31, 2017	11.99	60 375	5 035	1.43	1.43	116.27	—
Dec. 31, 2016	12.16	86 418	7 106	1.43	1.43	65.06	—
Dec. 31, 2015	10.97	56 717	5 169	1.44	1.44	108.96	—
Dec. 31, 2014	11.97	57 002	4 761	1.45	1.45	92.99	—
Dec. 31, 2013	12.18	13 651	1 121	1.44	1.44	100.39	—
Series D							
Dec. 31, 2017	11.85	681 016	57 473	0.87	0.87	116.27	—
Dec. 31, 2016	12.02	666 947	55 478	0.87	0.87	65.06	—
Dec. 31, 2015	10.85	610 061	56 237	0.87	0.87	108.96	—
Dec. 31, 2014	11.84	701 096	59 194	0.87	0.87	92.99	—
Dec. 31, 2013	12.06	665 058	55 152	0.87	0.87	100.39	—
Series F							
Dec. 31, 2017	11.91	611 556	51 333	0.88	0.88	116.27	—
Dec. 31, 2016	12.09	584 954	48 394	0.88	0.88	65.06	—
Dec. 31, 2015	10.91	385 236	35 317	0.89	0.89	108.96	—
Dec. 31, 2014	11.91	395 716	33 229	0.88	0.88	92.99	—
Dec. 31, 2013	12.12	266 739	22 003	0.88	0.88	100.39	—
Series O							
Dec. 31, 2017	11.43	2 375 053	207 730	0.03	0.03	116.27	—
Dec. 31, 2016	11.59	2 527 124	217 973	0.03	0.03	65.06	—
Dec. 31, 2015	10.47	1 864 376	178 093	0.03	0.03	108.96	—
Dec. 31, 2014	11.43	2 004 105	175 361	0.03	0.03	92.99	—
Dec. 31, 2013	11.64	1 939 348	166 580	0.03	0.03	100.39	—

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio manager of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series A	1.25%	40%	60%
Advisor Series	1.25%	40%	60%
Series D	0.75%	20%	80%
Series F	0.75%	—	100%

Series O – no management fees are paid by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

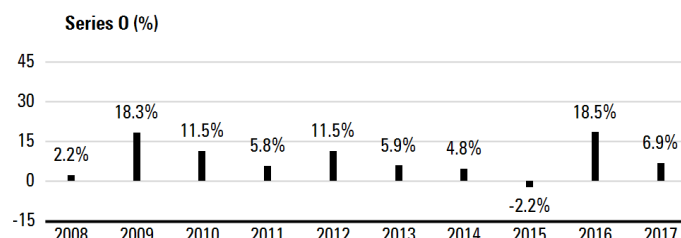
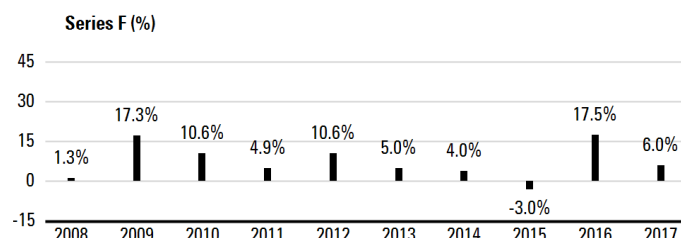
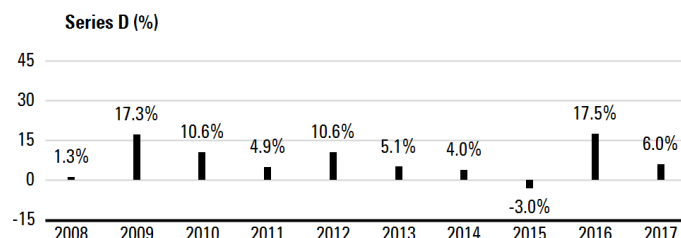
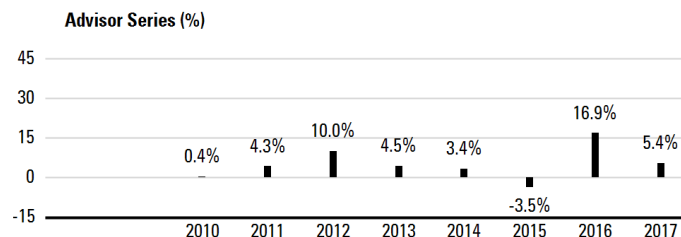
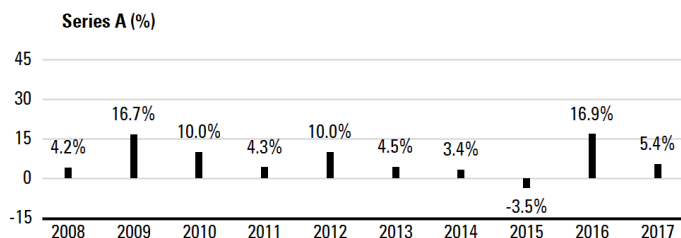
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



PAST PERFORMANCE (cont.)

Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2017, compared with the following benchmark:

FTSE TMX Canada Universe Bond Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	5.4	5.9	5.1	—	7.7
Benchmark	2.5	2.6	3.0	—	4.8
Advisor Series	5.4	5.9	5.1	—	5.6
Benchmark	2.5	2.6	3.0	—	3.8
Series D	6.0	6.5	5.7	7.2	—
Benchmark	2.5	2.6	3.0	4.7	—
Series F	6.0	6.5	5.7	7.2	—
Benchmark	2.5	2.6	3.0	4.7	—
Series O	6.9	7.4	6.6	8.1	—
Benchmark	2.5	2.6	3.0	4.7	—

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Advisor Series units have been available for sale to unitholders since October 2010, and Series A units since November 2008. Effective April 7, 2016, units of the Fund are no longer available for purchase by new investors.

Inception dates are not provided for series that have been in existence for more than 10 years.

All outstanding Series C units were renamed Series A units effective June 30, 2016. Series D was known as Series A prior to November 17, 2008.

INDEX DESCRIPTION

FTSE TMX Canada Universe Bond Index This index is designed as a broad measure of the Canadian investment-grade fixed-income market and includes bonds with maturities of at least one year.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2017

Investment Mix

	% of Net Asset Value
Corporate Bonds	90.1
Federal Bonds	1.2
Cash/Other	8.7

Top 25 Holdings

	% of Net Asset Value
Cash & Cash Equivalents	7.0
Enbridge Inc. 5.375% Sep 27 2077	6.3
Quebecor Media Inc. 6.625% Jan 15 2023	6.0
Baytex Energy Corp. 6.625% Jul 19 2022	4.2
Trilogy Energy Corp. 7.250% Dec 13 2019	3.9
Numericable-SFR S.A. USD 7.375% May 1 2026	3.9
Trilogy International Partners LLC 8.875% May 1 2022	2.9
Teine Energy Ltd. USD 6.875% Sep 30 2022	2.7
Baytex Energy Corp. USD 6.750% Feb 17 2021	2.6
Western Energy Services Corp. 7.875% Jan 30 2019	2.5
Newalta Corp. 7.750% Nov 14 2019	2.4
Superior Plus LP 6.500% Dec 9 2021	2.3
T-Mobile USA Inc. 6.500% Jan 15 2026	2.2
Icahn Enterprises LP 6.375% Dec 15 2025	2.0
Baytex Energy Corp. USD 5.625% Jun 1 2024	2.0
Parkland Fuel Corp. 5.625% May 9 2025	1.8
Icahn Enterprises LP 6.250% Feb 1 2022	1.7
Atlantic Power LP 5.950% Jun 23 2036	1.7
Morguard Corp. 4.333% Sep 15 2022	1.6
Crombie Real Estate Investment Trust 3.962% Jun 1 2021	1.6
Baytex Energy Corp. USD 5.125% Jun 1 2021	1.4
Parkland Fuel Corp. 6.000% Nov 21 2022	1.4
Great Canadian Gaming Corp. 6.625% Jul 25 2022	1.3
AutoCanada Inc. 5.625% May 25 2021	1.3
CES Energy Solutions Corp. 6.375% Oct 21 2024	1.3
Top 25 Holdings	68.0

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.rbcgam.com/funds, or by emailing us at info@phn.com.

FIXED-INCOME FUND

**PHILLIPS, HAGER & NORTH LONG
INFLATION-LINKED BOND FUND**

 December 31, 2017

Portfolio Manager *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 8, 2018.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank").

PHILLIPS, HAGER & NORTH
LONG INFLATION-LINKED BOND FUND
MANAGEMENT DISCUSSION OF FUND PERFORMANCE
Investment Objective and Strategies

The Fund seeks to generate interest income that is hedged against inflation by investing primarily in longer-term real-return bonds and inflation-linked bonds issued by Canadian and foreign governments and corporations.

To achieve the Fund's investment objectives, the portfolio manager invests primarily in the above-mentioned securities. The Fund's portfolio will include various longer-term maturities that are intended to match longer-term liabilities and to manage the interest-rate risk of the Phillips, Hager & North LifeTime Funds, which may hold the Fund in their portfolios. The Fund may also invest in asset-backed securities, including mortgage-backed securities and may invest all or a portion of the Fund's assets in one or more securities as permitted by securities legislation.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

Effective June 30, 2017, RBC GAM adopted the risk classification methodology under National Instrument 81-102 – *Investment Funds* (the "new risk classification methodology"). Pursuant to the new risk classification methodology, certain funds' risk ratings were changed. RBC GAM reviews each fund's risk rating on an annual basis or if there has been a material change to a fund's investment objectives or investment strategies. Any changes to a fund's risk rating are the result of RBC GAM's annual review and the adoption of the new risk classification methodology.

Effective June 30, 2017, the Fund's risk rating changed from low-to-medium to medium.

Results of Operations

The Fund's net asset value rose to \$90 million as of December 31, 2017, from \$71 million at the end of 2016. The increase was due to net inflows.

Over the past year, the Fund's Series O units gained 2.1%, which outperformed the 0.7% rise in the benchmark. The Fund's return is after the deduction of expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

Real (adjusted for inflation) interest rates were volatile in 2017.

Continued improvement in economic growth and expectations for higher inflation resulted in the Bank of Canada (the "BOC") increasing its benchmark interest rate twice during the year. As a result, long-term real interest rates moved higher for much of 2017. Towards the end of 2017, real interest rates fell close to where they started the year as economic growth moderated and inflation stayed below the BOC's target. By the end of the year, the Fund performed in line with its target of a modest real yield plus inflation.

The Fund invests in the longest-term Government of Canada real-return bonds, which mature in 2047 and 2050. The yield on the bonds fell to 0.5% at the end of 2017 from 0.7% at the beginning of the year.

Portfolio turnover was high during the period as the portfolio manager sought to take advantage of investment opportunities.

Recent Developments

The Fund's performance will depend entirely on that of the two bonds typically held in the portfolio. Inflation-adjusted interest rates are low by historical standards, and below levels that reflect the portfolio manager's expectations for Canada's economic growth rate over the long term. As a result, the portfolio manager expects that real yields will ultimately rise, and given the long-term nature of the Fund, any rise could lead to significant investor losses.

Related-Party Transactions
Manager and Portfolio Manager

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank and is the manager and principal portfolio manager of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund. Both the management fee and fixed administration fee are calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund.

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies. The Fund also maintains bank accounts and overdraft provisions with Royal Bank for which Royal Bank may earn a fee. Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

PHILLIPS, HAGER & NORTH
LONG INFLATION-LINKED BOND FUND
Distributor

RBC GAM is the principal distributor of the Fund.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and holds title to the Fund's property on behalf of unitholders. RBC IS is the custodian of the Fund and holds the assets of the Fund.

RBC IS earns a fee as the trustee and custodian, which is paid by the manager from the fixed administration fee paid by the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund. The registrars earn a fee, which is paid by the manager from the fixed administration fee paid by the Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Independent Review Committee with respect to one or more of the following transactions:

Related-Party Trading Activities

- (a) trades in securities of Royal Bank;
- (b) investments in the securities of issuers for which a related-party dealer acted as an underwriter during the distribution of such securities and the 60-day period following the conclusion of such distribution of the underwritten securities to the public;
- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal; and

Inter-Fund Trading

- (d) purchases or sales of securities of an issuer from or to another investment fund or managed account managed by RBC GAM.

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

PHILLIPS, HAGER & NORTH
LONG INFLATION-LINKED BOND FUND
FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

							Annual Distributions ²					Net Assets End of	
							From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital	Total		
For the Year/ Period Ended	Net Assets Beginning of Year/Period	Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total					Total	Year/Period	
Series O													
Dec. 31, 2017	11.75	0.47	—	(0.48)	0.40	0.39	(0.43)	—	—	—	(0.43)	11.57	
Dec. 31, 2016	11.35	0.32	—	0.07	0.19	0.58	(0.26)	—	(0.02)	—	(0.28)	11.75	
Dec. 31, 2015	11.63	0.24	—	0.31	(0.42)	0.13	(0.20)	—	(0.27)	—	(0.47)	11.35	
Dec. 31, 2014	9.91	0.35	—	0.01	1.57	1.93	(0.29)	—	(0.02)	—	(0.31)	11.63	
Dec. 31, 2013	12.30	0.20	—	(0.04)	(2.27)	(2.11)	(0.15)	—	—	—	(0.15)	9.90	

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series O							
Dec. 31, 2017	11.57	89 864	7 765	0.02	0.02	111.16	—
Dec. 31, 2016	11.75	70 635	6 007	0.03	0.03	37.57	—
Dec. 31, 2015	11.35	49 142	4 330	0.02	0.03	57.72	—
Dec. 31, 2014	11.63	34 454	2 964	0.02	0.03	7.14	—
Dec. 31, 2013	9.91	19 047	1 921	0.02	0.04	3.95	—

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

Management Fees

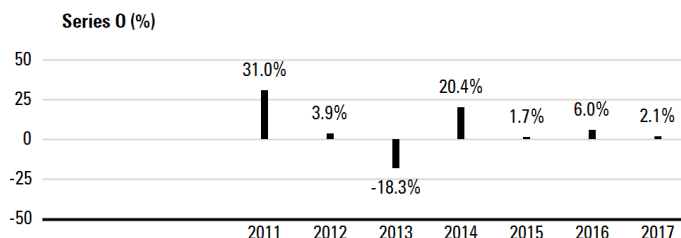
RBC GAM is the manager and portfolio manager of the Fund. No management fees are paid by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

PHILLIPS, HAGER & NORTH
LONG INFLATION-LINKED BOND FUND
PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.


Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2017, compared with the following benchmark:

FTSE TMX Canada Real Return Bond Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series 0	2.1	3.2	1.6	—	5.8
Benchmark	0.7	2.1	0.9	—	4.1

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Series 0 units have been available for sale to unitholders since January 2011.

Inception dates are not provided for series that have been in existence for more than 10 years.

INDEX DESCRIPTION

FTSE TMX Canada Real Return Bond Index This index is a broad measure of the performance of Canadian inflation-indexed real return bonds.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2017

Investment Mix

	% of Net Asset Value
Federal Bonds	99.9
Cash/Other	0.1

Top 25 Holdings*

	% of Net Asset Value
Government of Canada 0.500% Dec 1 2050	100.0
Cash & Cash Equivalents	—
Total	100.0

* The Fund holds fewer than 25 holdings.

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.rbcgam.com/funds, or by emailing us at info@phn.com.

BALANCED FUND

PHILLIPS, HAGER & NORTH
MONTHLY INCOME FUND

 December 31, 2017

Portfolio Manager *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 8, 2018.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE**Investment Objective and Strategies**

The Fund seeks to provide investors with monthly income that may consist of dividend income, interest income, realized capital gains and return of capital. Investors in the Fund will also have the potential for modest capital growth. To achieve the Fund's investment objective, the portfolio manager primarily invests in a well-diversified balanced portfolio of income-producing equity securities, including, but not limited to, common shares of dividend-paying Canadian companies and income trusts. The Fund may also invest in fixed-income securities such as preferred shares, government and corporate bonds, debentures and notes, asset backed commercial paper, mortgage backed securities and other income-generating securities.

The Fund's target weightings for each asset class are 50% for fixed income and 50% for equities. The target weightings for each asset class may be adjusted based on changes in the market outlook for each asset class.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

Effective June 30, 2017, RBC GAM adopted the risk classification methodology under National Instrument 81-102 – *Investment Funds* (the "new risk classification methodology"). Pursuant to the new risk classification methodology, certain funds' risk ratings were changed. RBC GAM reviews each fund's risk rating on an annual basis or if there has been a material change to a fund's investment objectives or investment strategies. Any changes to a fund's risk rating are the result of RBC GAM's annual review and the adoption of the new risk classification methodology.

There were no changes to the Fund's risk rating during the reporting period.

Results of Operations

The Fund's net asset value fell to \$2.2 billion as of December 31, 2017, from \$2.4 billion at the end of 2016. The decrease was due to net outflows.

Over the past year, the Fund's Series O units gained 6.0%, which underperformed the 7.0% rise in the benchmark. The broad-based index 1 rose 2.5% and the broad-based index 2 rose 9.1%. The Fund's return is after the deduction of expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

In 2017, the Fund made monthly distributions of 4.05 cents per Series A unit. For the year, the Fund made total distributions of approximately 49 cents per Series A unit, consisting of 9 cents per unit of dividends, 30 cents of capital gains and 10 cents of return of capital. In January 2018, monthly distributions for the Fund were lowered to 4.00 cents per Series A unit.

The Canadian equity market, as measured by the S&P/TSX Capped Composite Index, surged to record highs to close out 2017. Ten out of the 11 industry sectors posted gains during the year, with Energy being the only one to decline. A rise in oil prices in the latter half of 2017 muted some of the Energy sector's negative impact. The Financials, Consumer Discretionary and Industrials sectors contributed the most to index returns after a slow start to the year, offsetting mid-year worries related to surging home prices and consumer debt.

Positions in the Energy sector that had a negative-performance impact on the Fund's equity segment included ARC Resources and Enbridge Inc. The Fund's holdings in the Utilities sector aided returns, led by holdings in Brookfield Infrastructure Partners and Fortis.

The Bank of Canada (the "BOC") raised its benchmark interest rate twice in 2017, marking the first time in seven years that the central bank increased its policy rate. The fixed-income portion of the Fund continued to be defensively positioned. The gap between yields on government bonds and corporate bonds continued to narrow during the year in a sign that investors were taking on more risk to generate income in a low interest-rate environment. As a result, the Fund's overweight position in corporate bonds had a positive impact on performance for much of the year.

Recent Developments

Economic momentum in developed and emerging markets has shown little sign of slowing, and low inflation and accommodative monetary policies remain supportive. Synchronized global growth continues to be led by the U.S., whose central bank will likely continue with interest-rate hikes in 2018. The recently enacted U.S. tax cuts have the potential to maintain corporate earnings momentum. Steady and sustained expansion continues globally but political tensions remain a risk on the horizon.

Related-Party Transactions**Manager and Portfolio Manager**

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank and is the manager and principal portfolio manager of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays

certain operating expenses of the Fund. Both the management fee and fixed administration fee are calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund.

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies. The Fund also maintains bank accounts and overdraft provisions with Royal Bank for which Royal Bank may earn a fee. Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series A, Advisor Series, Series H and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and holds title to the Fund's property on behalf of unitholders. RBC IS is the custodian of the Fund and holds the assets of the Fund.

RBC IS earns a fee as the trustee and custodian, which is paid by the manager from the fixed administration fee paid by the Fund.

Registrars

RBC GAM, RBC IS and Royal Bank are the registrars of the Fund and keep records of who owns units of the Fund. The registrars earn a fee, which is paid by the manager from the fixed administration fee paid by the Fund.

Brokers and Dealers

The Fund has established standard brokerage and dealing agreements at market rates with related parties. These related-party commissions were \$159,000 (2016 – \$318,000), or 7% (2016 – 8%) of the total transaction costs paid for this Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Independent Review Committee with respect to one or more of the following transactions:

Related-Party Trading Activities

- (a) trades in securities of Royal Bank;
- (b) investments in the securities of issuers for which a related-party dealer acted as an underwriter during the distribution of such securities and the 60-day period following the conclusion of such distribution of the underwritten securities to the public;

- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal; and

Inter-Fund Trading

- (d) purchases or sales of securities of an issuer from or to another investment fund or managed account managed by RBC GAM.

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²					Net Assets End of Year/Period
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital	Total	
Series A												
Dec. 31, 2017	9.72	0.31	(0.19)	0.32	(0.06)	0.38	—	(0.09)	(0.30)	(0.10)	(0.49)	9.62
Dec. 31, 2016	9.08	0.34	(0.18)	0.13	0.81	1.10	(0.07)	(0.18)	(0.08)	(0.13)	(0.46)	9.72
Dec. 31, 2015	10.03	0.37	(0.19)	(0.07)	(0.53)	(0.42)	(0.01)	(0.19)	(0.04)	(0.26)	(0.50)	9.08
Dec. 31, 2014	10.45	0.36	(0.21)	0.71	(0.24)	0.62	(0.08)	(0.17)	(0.86)	—	(1.11)	10.03
Dec. 31, 2013	10.43	0.39	(0.20)	0.42	0.09	0.70	(0.15)	(0.19)	(0.36)	—	(0.70)	10.44
Advisor Series												
Dec. 31, 2017	9.72	0.31	(0.18)	0.32	(0.07)	0.38	—	(0.09)	(0.30)	(0.10)	(0.49)	9.63
Dec. 31, 2016	9.08	0.34	(0.18)	0.13	0.83	1.12	(0.07)	(0.18)	(0.08)	(0.13)	(0.46)	9.72
Dec. 31, 2015	10.03	0.37	(0.19)	(0.07)	(0.53)	(0.42)	(0.01)	(0.19)	(0.04)	(0.26)	(0.50)	9.08
Dec. 31, 2014	10.45	0.37	(0.20)	0.73	(0.25)	0.65	(0.08)	(0.17)	(0.86)	—	(1.11)	10.03
Dec. 31, 2013	10.43	0.38	(0.20)	0.41	0.09	0.68	(0.15)	(0.19)	(0.36)	—	(0.70)	10.44
Series H												
Dec. 31, 2017	9.81	0.32	(0.17)	0.33	(0.08)	0.40	—	(0.09)	(0.30)	(0.10)	(0.49)	9.73
Dec. 31, 2016	9.15	0.34	(0.15)	0.14	0.70	1.03	(0.07)	(0.18)	(0.08)	(0.13)	(0.46)	9.81
Dec. 31, 2015	10.08	0.37	(0.17)	(0.07)	(0.53)	(0.40)	(0.01)	(0.19)	(0.04)	(0.26)	(0.50)	9.15
Dec. 31, 2014	10.48	0.37	(0.19)	0.73	(0.25)	0.66	(0.08)	(0.17)	(0.86)	—	(1.11)	10.08
Dec. 31, 2013	10.44	0.39	(0.18)	0.42	0.09	0.72	(0.15)	(0.19)	(0.36)	—	(0.70)	10.47
Series D												
Dec. 31, 2017	10.35	0.34	(0.11)	0.34	(0.07)	0.50	—	(0.09)	(0.32)	(0.11)	(0.52)	10.33
Dec. 31, 2016	9.58	0.36	(0.11)	0.14	0.86	1.25	(0.08)	(0.18)	(0.08)	(0.14)	(0.48)	10.35
Dec. 31, 2015	10.49	0.38	(0.11)	(0.07)	(0.56)	(0.36)	(0.01)	(0.21)	(0.04)	(0.27)	(0.53)	9.58
Dec. 31, 2014	10.82	0.39	(0.12)	0.76	(0.26)	0.77	(0.08)	(0.18)	(0.88)	—	(1.14)	10.49
Dec. 31, 2013	10.70	0.40	(0.12)	0.43	0.09	0.80	(0.15)	(0.19)	(0.37)	—	(0.71)	10.81
Series F												
Dec. 31, 2017	10.55	0.34	(0.09)	0.35	(0.06)	0.54	—	(0.09)	(0.33)	(0.11)	(0.53)	10.56
Dec. 31, 2016	9.74	0.37	(0.08)	0.15	0.76	1.20	(0.08)	(0.19)	(0.08)	(0.14)	(0.49)	10.55
Dec. 31, 2015	10.64	0.39	(0.09)	(0.07)	(0.57)	(0.34)	(0.01)	(0.20)	(0.04)	(0.28)	(0.53)	9.74
Dec. 31, 2014	10.94	0.39	(0.09)	0.77	(0.26)	0.81	(0.08)	(0.18)	(0.89)	—	(1.15)	10.64
Dec. 31, 2013	10.79	0.40	(0.09)	0.44	0.10	0.85	(0.15)	(0.19)	(0.37)	—	(0.71)	10.93
Series I												
Dec. 31, 2017	10.64	0.35	(0.07)	0.35	(0.09)	0.54	—	(0.09)	(0.33)	(0.11)	(0.53)	10.66
Dec. 31, 2016	9.81	0.37	(0.06)	0.15	0.83	1.29	(0.08)	(0.19)	(0.08)	(0.14)	(0.49)	10.64
Dec. 31, 2015	10.69	0.39	(0.07)	(0.07)	(0.56)	(0.31)	(0.01)	(0.20)	(0.04)	(0.28)	(0.53)	9.81
Dec. 31, 2014	10.97	0.39	(0.07)	0.77	(0.26)	0.83	(0.08)	(0.18)	(0.89)	—	(1.15)	10.69
Dec. 31, 2013	10.80	0.40	(0.07)	0.44	0.10	0.87	(0.15)	(0.19)	(0.37)	—	(0.71)	10.96

FINANCIAL HIGHLIGHTS (cont.)

Change in Net Assets Per Unit (\$) (cont.)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²					Net Assets End of Year/Period
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital	Total	
Series O												
Dec. 31, 2017	11.14	0.36	(0.01)	0.37	(0.07)	0.65	—	(0.11)	(0.34)	(0.11)	(0.56)	11.24
Dec. 31, 2016	10.21	0.38	(0.01)	0.15	0.93	1.45	(0.08)	(0.19)	(0.09)	(0.15)	(0.51)	11.14
Dec. 31, 2015	11.06	0.41	(0.01)	(0.08)	(0.59)	(0.27)	(0.01)	(0.21)	(0.04)	(0.29)	(0.55)	10.21
Dec. 31, 2014	11.27	0.42	(0.01)	0.81	(0.28)	0.94	(0.09)	(0.19)	(0.90)	—	(1.18)	11.06
Dec. 31, 2013	11.03	0.41	(0.01)	0.45	0.10	0.95	(0.15)	(0.20)	(0.38)	—	(0.73)	11.26

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series A							
Dec. 31, 2017	9.62	1 594 244	165 682	1.92	1.92	84.53	0.10
Dec. 31, 2016	9.72	1 790 651	184 156	1.92	1.92	183.99	0.17
Dec. 31, 2015	9.08	2 048 442	225 496	1.92	1.92	206.03	0.24
Dec. 31, 2014	10.03	2 754 742	274 644	1.94	1.94	187.77	0.24
Dec. 31, 2013	10.45	573 572	54 901	1.92	1.92	220.70	0.27
Advisor Series							
Dec. 31, 2017	9.63	67 994	7 065	1.92	1.92	84.53	0.10
Dec. 31, 2016	9.72	81 979	8 431	1.92	1.92	183.99	0.17
Dec. 31, 2015	9.08	94 677	10 422	1.92	1.92	206.03	0.24
Dec. 31, 2014	10.03	133 056	13 265	1.92	1.92	187.77	0.24
Dec. 31, 2013	10.45	131 135	12 551	1.92	1.92	220.70	0.27
Series H							
Dec. 31, 2017	9.73	49 161	5 053	1.75	1.75	84.53	0.10
Dec. 31, 2016	9.81	59 545	6 067	1.75	1.75	183.99	0.17
Dec. 31, 2015	9.15	40 118	4 385	1.74	1.74	206.03	0.24
Dec. 31, 2014	10.08	58 352	5 789	1.74	1.74	187.77	0.24
Dec. 31, 2013	10.48	36 308	3 466	1.74	1.74	220.70	0.27
Series D							
Dec. 31, 2017	10.33	135 358	13 104	1.09	1.09	84.53	0.10
Dec. 31, 2016	10.35	135 614	13 107	1.09	1.09	183.99	0.17
Dec. 31, 2015	9.58	130 065	13 571	1.09	1.09	206.03	0.24
Dec. 31, 2014	10.49	153 635	14 642	1.08	1.08	187.77	0.24
Dec. 31, 2013	10.82	138 932	12 840	1.09	1.09	220.70	0.27
Series F							
Dec. 31, 2017	10.56	199 701	18 919	0.83	0.83	84.53	0.10
Dec. 31, 2016	10.55	117 816	11 171	0.83	0.83	183.99	0.17
Dec. 31, 2015	9.74	66 943	6 872	0.83	0.83	206.03	0.24
Dec. 31, 2014	10.64	85 017	7 994	0.83	0.83	187.77	0.24
Dec. 31, 2013	10.94	81 613	7 459	0.83	0.83	220.70	0.27

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data (cont.)

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series I							
Dec. 31, 2017	10.66	8 489	796	0.65	0.65	84.53	0.10
Dec. 31, 2016	10.64	9 571	900	0.64	0.64	183.99	0.17
Dec. 31, 2015	9.81	8 160	832	0.65	0.65	206.03	0.24
Dec. 31, 2014	10.69	16 892	1 581	0.65	0.65	187.77	0.24
Dec. 31, 2013	10.97	10 218	932	0.66	0.66	220.70	0.27
Series O							
Dec. 31, 2017	11.24	159 602	14 202	0.06	0.06	84.53	0.10
Dec. 31, 2016	11.14	169 414	15 206	0.06	0.06	183.99	0.17
Dec. 31, 2015	10.21	195 642	19 159	0.06	0.06	206.03	0.24
Dec. 31, 2014	11.06	250 753	22 678	0.06	0.06	187.77	0.24
Dec. 31, 2013	11.27	2 204 094	195 565	0.06	0.06	220.70	0.27

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

Management Fees

RBC GAM is the manager and portfolio manager of the Fund.

Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series A	1.65%	61%	39%
Advisor Series	1.65%	61%	39%
Series H	1.50%	67%	33%
Series D	0.90%	28%	72%
Series F	0.65%	—	100%
Series I	0.50%	—	100%

Series O – no management fees are paid by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

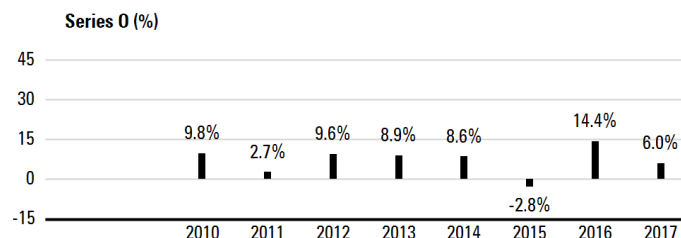
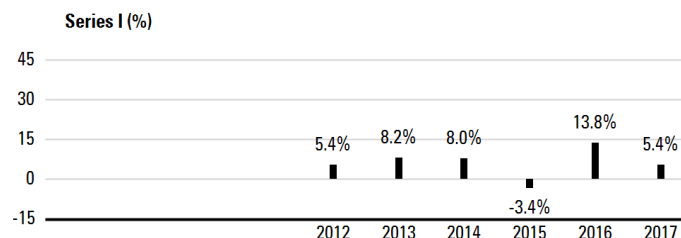
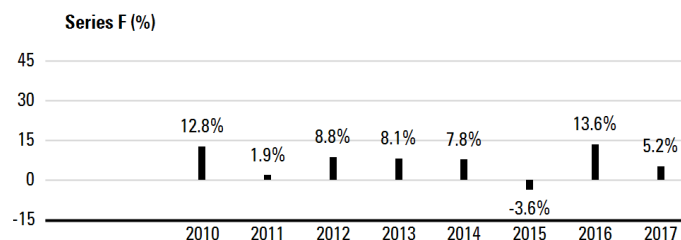
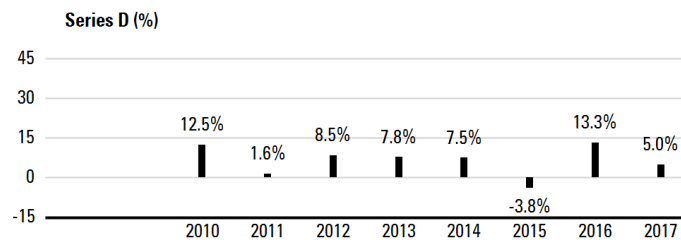
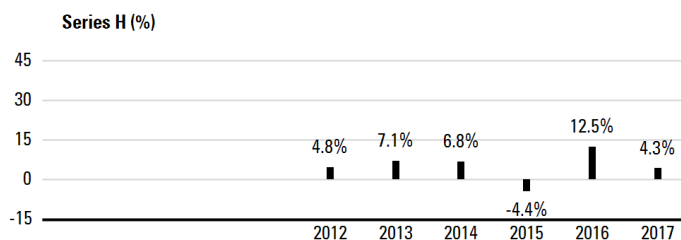
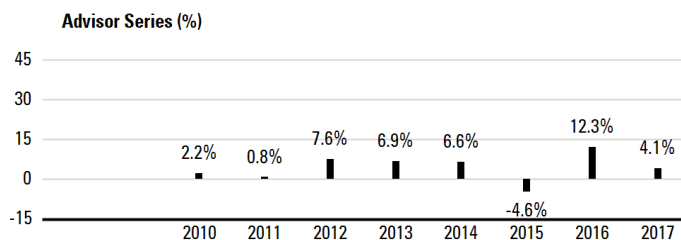
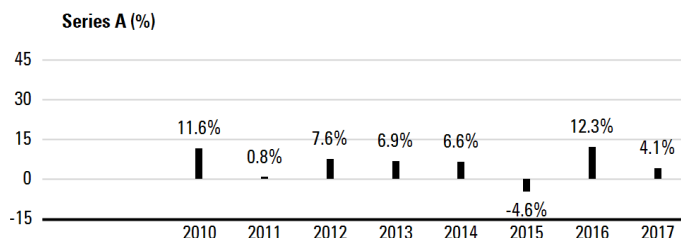
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



PAST PERFORMANCE (cont.)

Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2017, compared with the following benchmarks:

The blended benchmark (the "Benchmark") is composed of:

- 50% S&P/TSX Capped Composite Total Return Index
- 35% FTSE TMX Canada Universe Bond Index
- 10% Merrill Lynch Canadian High Yield Index
- 5% S&P/TSX Preferred Share Total Return Index

The following are the broad-based indexes:

Broad-based index 1 – FTSE TMX Canada Universe Bond Index

Broad-based index 2 – S&P/TSX Capped Composite Total Return Index

In January 2018, the S&P/TSX Capped Composite Total Return Index was added as a second broad-based index to more closely reflect the Fund's composition. The existing broad-based index is the FTSE TMX Canada Universe Bond Index.

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	4.1	3.7	4.9	—	5.5
Benchmark	7.0	5.0	6.1	—	6.3
Broad-based index 1	2.5	2.6	3.0	—	4.4
Broad-based index 2	9.1	6.6	8.6	—	7.2
Advisor Series	4.1	3.7	4.9	—	4.9
Benchmark	7.0	5.0	6.1	—	5.5
Broad-based index 1	2.5	2.6	3.0	—	3.8
Broad-based index 2	9.1	6.6	8.6	—	6.6
Series H	4.3	3.9	5.1	—	5.5
Benchmark	7.0	5.0	6.1	—	6.6
Broad-based index 1	2.5	2.6	3.0	—	2.9
Broad-based index 2	9.1	6.6	8.6	—	9.5
Series D	5.0	4.6	5.8	—	6.4
Benchmark	7.0	5.0	6.1	—	6.3
Broad-based index 1	2.5	2.6	3.0	—	4.4
Broad-based index 2	9.1	6.6	8.6	—	7.2
Series F	5.2	4.8	6.1	—	6.7
Benchmark	7.0	5.0	6.1	—	6.3
Broad-based index 1	2.5	2.6	3.0	—	4.4
Broad-based index 2	9.1	6.6	8.6	—	7.2
Series I	5.4	5.0	6.3	—	6.7
Benchmark	7.0	5.1	6.1	—	6.6
Broad-based index 1	2.5	2.6	3.0	—	2.9
Broad-based index 2	9.1	6.6	8.6	—	9.5
Series O	6.0	5.7	6.9	—	7.2
Benchmark	7.0	5.1	6.1	—	6.0
Broad-based index 1	2.5	2.6	3.0	—	4.4
Broad-based index 2	9.1	6.6	8.6	—	6.8

The returns of each series may vary because of differences in management fees and expenses. The Benchmark and broad-based index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark and broad-based indexes.

Series H and Series I units have been available for sale to unitholders since July 2012, Advisor Series units since October 2010, Series O units since April 2010, and Series A, Series D and Series F units since December 2009.

Inception dates are not provided for series that have been in existence for more than 10 years.

All outstanding Series C units were renamed Series A units effective June 30, 2016.

INDEX DESCRIPTIONS

S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

FTSE TMX Canada Universe Bond Index This index is designed as a broad measure of the Canadian investment-grade fixed-income market and includes bonds with maturities of at least one year.

Merrill Lynch Canadian High Yield Index This index tracks the performance of U.S. dollar- and Canadian dollar-denominated below-investment-grade corporate debt publicly issued by Canadian issuers in the Canadian or U.S. domestic markets.

S&P/TSX Preferred Share Total Return Index This index is composed of preferred stocks trading on the Toronto Stock Exchange that meet criteria relating to minimum size, liquidity, issuer rating and exchange listing.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2017

Investment Mix

	% of Net Asset Value
Canadian Equities	51.2
Bonds	40.9
Preferred Equities	5.4
Cash/Other	2.5

SUMMARY OF INVESTMENT PORTFOLIO (cont.)

(after consideration of derivative products, if any)

As at December 31, 2017

Top 25 Holdings

	% of Net Asset Value
RBC High Yield Bond Fund	5.6
Toronto-Dominion Bank	4.4
Phillips, Hager & North High Yield Bond Fund	4.2
Royal Bank of Canada	4.2
Enbridge Inc.	3.1
Bank of Nova Scotia	2.1
Brookfield Asset Management Inc., Class A	2.0
Canadian Imperial Bank of Commerce	2.0
Manulife Financial Corporation	1.6
TransCanada Corp.	1.5
Alimentation Couche-Tard Inc.	1.5
Government of Canada 0.750% Sep 1 2020	1.5
Bank of Montreal	1.5
Waste Connections Inc.	1.3
Stantec Inc.	1.3
Canada Housing Trust No. 1 1.250% Jun 15 2021	1.2
Government of Canada 3.250% Jun 1 2021	1.1
ARC Resources Ltd.	1.1
Province of Ontario 3.500% Jun 2 2043	1.1
Suncor Energy Inc.	1.1
Cash & Cash Equivalents	1.1
Keyera Corp.	1.0
Canadian National Railway Co.	1.0
Canadian Pacific Railway Ltd.	1.0
Shaw Communications Inc., Class B	1.0
Top 25 Holdings	48.5

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.rbcgam.com/funds, or by emailing us at info@phn.com.

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at www.sedar.com.

BALANCED FUND

PHILLIPS, HAGER & NORTH
BALANCED FUND

 December 31, 2017

Portfolio Manager *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 8, 2018.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE**Investment Objective and Strategies**

The Fund seeks to provide investors with long-term capital growth and income by investing primarily in a strategic asset mix of Canadian and foreign equities, Canadian fixed-income securities and money market instruments. Its asset mix is adjusted periodically to reflect changing economic and market conditions. The magnitude and timing of all rebalancing decisions within the Fund are made by a team of investment professionals who focus on determining the best asset mix in any given economic environment. To achieve the Fund's investment objective, the portfolio manager invests a significant portion or even all of the net asset value of the Fund in other funds managed by RBC GAM where the investment is consistent with the investment objectives and strategies of the Fund.

Risk

The Fund has multiple risks associated with investing in various asset classes. These risks are similar to the risks of investing in the underlying funds. The Fund is suitable for investors who plan to hold their investments for the medium-to-long term and can tolerate low-to-medium investment risk.

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

Effective June 30, 2017, RBC GAM adopted the risk classification methodology under National Instrument 81-102 – *Investment Funds* (the "new risk classification methodology"). Pursuant to the new risk classification methodology, certain funds' risk ratings were changed. RBC GAM reviews each fund's risk rating on an annual basis or if there has been a material change to a fund's investment objectives or investment strategies. Any changes to a fund's risk rating are the result of RBC GAM's annual review and the adoption of the new risk classification methodology.

There were no changes to the Fund's risk rating during the reporting period.

Results of Operations

The Fund's net asset value rose to \$976 million as of December 31, 2017, from \$862 million at the end of 2016. The increase was due to mainly to investment returns.

Over the past year, the Fund's Series O units gained 10.7%, which outperformed the 8.5% rise in the benchmark. The broad-based index 1 rose 2.5% and the broad-based index 2 rose 9.1%. The Fund's return is after the deduction of expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial

Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

Global economic growth surged to the highest in seven years in 2017 thanks to a confluence of factors. The expansion was highly synchronized, encompassing the bulk of developed and many emerging-market nations. In the U.S., measures of confidence and risk appetite were robust, benefiting from the macroeconomic strength and helping to sustain it. Economic growth in the Eurozone and Japan continued to impress with a persistence that would have been hard to fathom several years ago. Canadian growth was unexpectedly brisk, prompting the Bank of Canada to raise interest rates twice during the year, even as investors worried about Canadians' high household debts and the future of the North American Free Trade Agreement.

The Fund's overweight position in equities and underweight position in fixed income had a positive impact on performance. Bonds issued by national governments ended 2017 with modest returns as inflation remained subdued and most major central banks extended bond-buying programs aimed at holding down interest rates. Yields moved generally lower in the first eight months of the year due to escalating tension between the U.S. and North Korea and continued skepticism about the Trump administration's ability to enact its pro-growth policies. However, government-bond yields reversed higher in September as investors began anticipating efforts by central banks to scale back monetary stimulus and the likelihood of U.S. tax cuts increased. Canadian bonds underperformed U.S. fixed income given the faster-than-expected domestic growth. Returns were bolstered by exposure to the RBC Bond Fund and the RBC High Yield Bond Fund.

Stock markets rose in most of the world during 2017, driven by the tailwinds of rising corporate profits and the continued environment of relatively low global interest rates. Among the strongest-performing indexes were Japan, which benefited from the impact of structural reforms, and emerging markets, bolstered by a handful of technology stocks having large market capitalizations. In the U.S., equities were aided by expectations that the Republican-controlled Congress would work with President Trump to pass corporate and personal-income tax cuts, a hope that came to fruition at year end. European markets in local-currency terms and Canadian indexes had more modest gains because their indexes had minimal exposure to the strong returns delivered by the Information Technology sector. All of the Fund's equity holdings had a positive impact on performance, led by the RBC Global Equity Focus Fund.

Recent Developments

The portfolio manager expects bond yields to move higher at a gradual pace, supported by the improving economy and monetary tightening. Meanwhile, earnings have been coming through and analysts are optimistic that the trend can persist. U.S. corporate-tax cuts could provide an additional boost to profits. Against this backdrop, equities continue to offer superior total-return potential compared to fixed income and the portfolio manager has maintained a moderate overweight in stocks and underweight in bonds as a result.

Related-Party Transactions

Manager and Portfolio Manager

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank and is the manager and principal portfolio manager of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund. Both the management fee and fixed administration fee are calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund.

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies. The Fund also maintains bank accounts and overdraft provisions with Royal Bank for which Royal Bank may earn a fee. Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series A, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and holds title to the Fund's property on behalf of unitholders. RBC IS is the custodian of the Fund and holds the assets of the Fund.

RBC IS earns a fee as the trustee and custodian, which is paid by the manager from the fixed administration fee paid by the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund. The registrars earn a fee, which is paid by the manager from the fixed administration fee paid by the Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Independent Review Committee with respect to one or more of the following transactions:

Related-Party Trading Activities

- (a) trades in securities of Royal Bank;
- (b) investments in the securities of issuers for which a related-party dealer acted as an underwriter during the distribution of such securities and the 60-day period following the conclusion of such distribution of the underwritten securities to the public;
- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal; and

Inter-Fund Trading

- (d) purchases or sales of securities of an issuer from or to another investment fund or managed account managed by RBC GAM.

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²					Net Assets End of Year/Period
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series A												
Dec. 31, 2017	19.31	0.51	(0.39)	0.58	0.95	1.65	(0.04)	(0.20)	(0.34)	—	(0.58)	20.39
Dec. 31, 2016	18.63	0.53	(0.38)	0.51	0.51	1.17	(0.06)	(0.20)	(0.25)	—	(0.51)	19.31
Dec. 31, 2015	18.78	0.55	(0.39)	0.78	(0.23)	0.71	(0.06)	(0.20)	(0.64)	—	(0.90)	18.63
Dec. 31, 2014	18.97	0.51	(0.39)	2.40	(0.63)	1.89	(0.04)	(0.10)	(1.93)	—	(2.07)	18.78
Dec. 31, 2013	17.03	0.51	(0.35)	0.25	1.70	2.11	(0.07)	(0.11)	—	—	(0.18)	18.97
Advisor Series												
Dec. 31, 2017	19.36	0.51	(0.39)	0.58	0.87	1.57	(0.04)	(0.20)	(0.35)	—	(0.59)	20.44
Dec. 31, 2016	18.64	0.53	(0.38)	0.51	0.55	1.21	(0.06)	(0.19)	(0.22)	—	(0.47)	19.36
Dec. 31, 2015	18.79	0.55	(0.39)	0.78	(0.23)	0.71	(0.06)	(0.20)	(0.64)	—	(0.90)	18.64
Dec. 31, 2014	18.98	0.51	(0.39)	2.40	(0.63)	1.89	(0.04)	(0.10)	(1.93)	—	(2.07)	18.79
Dec. 31, 2013	17.03	0.49	(0.36)	0.25	1.64	2.02	(0.07)	(0.11)	—	—	(0.18)	18.98
Series D												
Dec. 31, 2017	19.26	0.51	(0.17)	0.58	0.95	1.87	(0.06)	(0.27)	(0.35)	—	(0.68)	20.46
Dec. 31, 2016	18.47	0.53	(0.16)	0.51	0.53	1.41	(0.08)	(0.28)	(0.26)	—	(0.62)	19.26
Dec. 31, 2015	18.52	0.55	(0.17)	0.77	(0.22)	0.93	(0.08)	(0.29)	(0.64)	—	(1.01)	18.47
Dec. 31, 2014	18.73	0.50	(0.17)	2.37	(0.63)	2.07	(0.09)	(0.26)	(1.93)	—	(2.28)	18.52
Dec. 31, 2013	16.81	0.50	(0.15)	0.25	1.68	2.28	(0.14)	(0.22)	—	—	(0.36)	18.73
Series F												
Dec. 31, 2017	19.24	0.51	(0.17)	0.58	0.94	1.86	(0.06)	(0.27)	(0.35)	—	(0.68)	20.44
Dec. 31, 2016	18.46	0.53	(0.17)	0.51	0.50	1.37	(0.08)	(0.27)	(0.26)	—	(0.61)	19.24
Dec. 31, 2015	18.54	0.55	(0.17)	0.77	(0.23)	0.92	(0.08)	(0.28)	(0.67)	—	(1.03)	18.46
Dec. 31, 2014	18.74	0.50	(0.18)	2.37	(0.63)	2.06	(0.09)	(0.25)	(1.93)	—	(2.27)	18.54
Dec. 31, 2013	16.82	0.50	(0.16)	0.25	1.68	2.27	(0.14)	(0.22)	—	—	(0.36)	18.74
Series O												
Dec. 31, 2017	19.05	0.50	—	0.58	0.95	2.03	(0.08)	(0.39)	(0.35)	—	(0.82)	20.25
Dec. 31, 2016	18.26	0.53	—	0.51	0.49	1.53	(0.11)	(0.40)	(0.25)	—	(0.76)	19.05
Dec. 31, 2015	18.32	0.54	—	0.76	(0.22)	1.08	(0.12)	(0.39)	(0.65)	—	(1.16)	18.26
Dec. 31, 2014	18.54	0.50	—	2.34	(0.62)	2.22	(0.13)	(0.38)	(1.93)	—	(2.44)	18.32
Dec. 31, 2013	16.64	0.49	—	0.25	1.66	2.40	(0.20)	(0.30)	—	—	(0.50)	18.54

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series A							
Dec. 31, 2017	20.39	27 008	1 325	1.98⁴	1.98	5.56	0.07
Dec. 31, 2016	19.31	24 070	1 246	2.01	2.01	14.33	0.08
Dec. 31, 2015	18.63	24 677	1 325	2.00	2.00	17.64	0.08
Dec. 31, 2014	18.78	23 095	1 230	1.99	1.99	53.33	0.08
Dec. 31, 2013	18.97	22 353	1 178	2.00	2.00	118.83	0.11
Advisor Series							
Dec. 31, 2017	20.44	15 361	752	1.98⁴	1.98	5.56	0.07
Dec. 31, 2016	19.36	12 629	652	2.02	2.02	14.33	0.08
Dec. 31, 2015	18.64	5 881	316	2.00	2.00	17.64	0.08
Dec. 31, 2014	18.79	3 940	210	1.99	1.99	53.33	0.08
Dec. 31, 2013	18.98	2 852	150	2.00	2.00	118.83	0.11
Series D							
Dec. 31, 2017	20.46	874 608	42 753	0.88	0.88	5.56	0.07
Dec. 31, 2016	19.26	775 562	40 274	0.88	0.88	14.33	0.08
Dec. 31, 2015	18.47	713 802	38 649	0.88	0.88	17.64	0.08
Dec. 31, 2014	18.52	647 200	34 942	0.88	0.88	53.33	0.08
Dec. 31, 2013	18.73	595 989	31 823	0.88	0.88	118.83	0.11
Series F							
Dec. 31, 2017	20.44	17 088	836	0.89⁴	0.89	5.56	0.07
Dec. 31, 2016	19.24	11 697	608	0.92	0.92	14.33	0.08
Dec. 31, 2015	18.46	7 085	384	0.92	0.92	17.64	0.08
Dec. 31, 2014	18.54	9 185	495	0.91	0.91	53.33	0.08
Dec. 31, 2013	18.74	8 864	473	0.91	0.91	118.83	0.11
Series O							
Dec. 31, 2017	20.25	41 880	2 068	0.04	0.04	5.56	0.07
Dec. 31, 2016	19.05	38 263	2 009	0.04	0.04	14.33	0.08
Dec. 31, 2015	18.26	39 081	2 140	0.04	0.04	17.64	0.08
Dec. 31, 2014	18.32	38 910	2 124	0.04	0.04	53.33	0.08
Dec. 31, 2013	18.54	47 414	2 557	0.04	0.04	118.83	0.11

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ Effective June 30, 2017, the administration fees were changed in respect of Series A, Advisor Series and Series F units of the Fund. If the changes to the administration fees would have been in effect throughout 2017, the adjusted MER for each series of the Fund would be: Series A – 1.96%, Advisor Series – 1.96% and Series F – 0.87%.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio manager of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series A	1.75%	57%	43%
Advisor Series	1.75%	57%	43%
Series D	0.75%	33%	67%
Series F	0.75%	—	100%

Series O – no management fees are paid by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

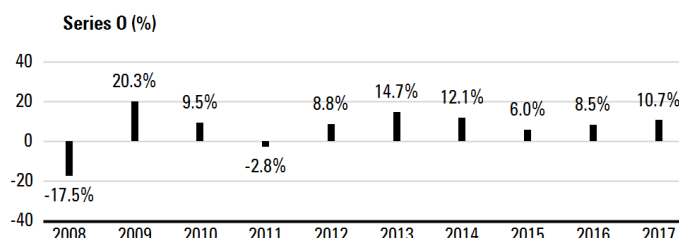
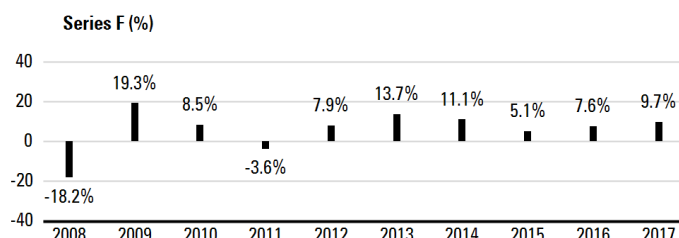
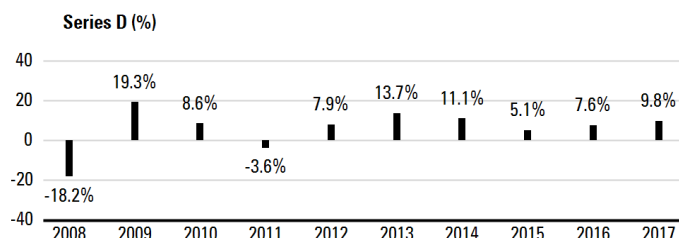
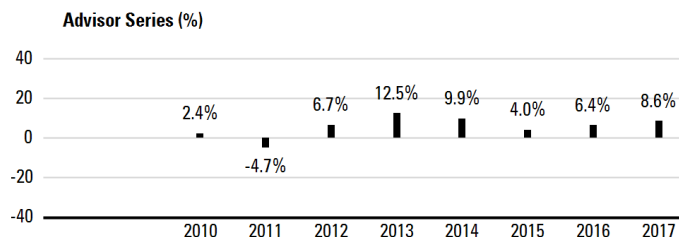
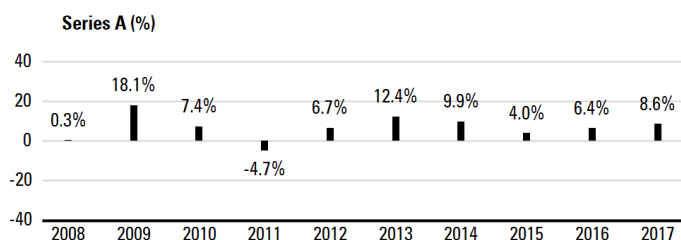
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



PAST PERFORMANCE (cont.)

Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2017, compared with the following benchmarks:

The blended benchmark (the "Benchmark") is composed of:

- 38% FTSE TMX Canada Universe Bond Index
- 30% S&P/TSX Capped Composite Total Return Index
- 26% MSCI World Total Return Net Index (CAD)
- 4% MSCI Emerging Markets Total Return Net Index (CAD)
- 2% FTSE TMX Canada 30 Day TBill Index

The following are the broad-based indexes:

Broad-based index 1 – FTSE TMX Canada Universe Bond Index

Broad-based index 2 – S&P/TSX Capped Composite Total Return Index

In January 2018, the S&P/TSX Capped Composite Total Return Index was added as a second broad-based index to more closely reflect the Fund's composition. The existing broad-based index is the FTSE TMX Canada Universe Bond Index.

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	8.6	6.3	8.2	—	7.4
Benchmark	8.5	6.7	8.5	—	8.8
Broad-based index 1	2.5	2.6	3.0	—	4.8
Broad-based index 2	9.1	6.6	8.6	—	10.0
Advisor Series	8.6	6.3	8.2	—	6.3
Benchmark	8.5	6.7	8.5	—	7.3
Broad-based index 1	2.5	2.6	3.0	—	3.8
Broad-based index 2	9.1	6.6	8.6	—	6.6
Series D	9.8	7.5	9.4	5.6	—
Benchmark	8.5	6.7	8.5	5.6	—
Broad-based index 1	2.5	2.6	3.0	4.7	—
Broad-based index 2	9.1	6.6	8.6	4.7	—
Series F	9.7	7.5	9.4	5.6	—
Benchmark	8.5	6.7	8.5	5.6	—
Broad-based index 1	2.5	2.6	3.0	4.7	—
Broad-based index 2	9.1	6.6	8.6	4.7	—
Series O	10.7	8.4	10.3	6.5	—
Benchmark	8.5	6.7	8.5	5.6	—
Broad-based index 1	2.5	2.6	3.0	4.7	—
Broad-based index 2	9.1	6.6	8.6	4.7	—

The returns of each series may vary because of differences in management fees and expenses. The Benchmark and broad-based index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark and broad-based indexes.

Advisor Series units have been available for sale to unitholders since October 2010, and Series A units since November 2008.

Inception dates are not provided for series that have been in existence for more than 10 years.

All outstanding Series C units were renamed Series A units effective June 30, 2016. Series D was known as Series A prior to November 17, 2008.

INDEX DESCRIPTIONS

FTSE TMX Canada Universe Bond Index This index is designed as a broad measure of the Canadian investment-grade fixed-income market and includes bonds with maturities of at least one year.

S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

MSCI World Total Return Net Index (CAD) This index is the capitalization-weighted index measuring the Canadian dollar performance of selected companies listed on stock exchanges in countries around the world. The net total return index reinvests dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

MSCI Emerging Markets Total Return Net Index (CAD) This index is a broad measure of the Canadian dollar performance of emerging-market equities. As of May 2010, the index consisted of the following 21 emerging-market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, South Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand and Turkey. The net total return index reinvests dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

FTSE TMX Canada 30 Day TBill Index This index is a measure of the performance of Canadian short-term cash investments.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2017

Investment Mix

	% of Net Asset Value
Bonds	34.5
Canadian Equities	31.2
Global Equities	30.3
Cash/Other	4.0

Top 25 Holdings*

	% of Net Asset Value
Phillips, Hager & North Bond Fund	35.7
Phillips, Hager & North Canadian Equity Underlying Fund	30.7
RBC Global Equity Focus Fund	20.7
RBC QUBE Global Equity Fund	6.8
RBC Emerging Markets Equity Fund	4.0
Phillips, Hager & North Canadian Money Market Fund	1.5
Cash & Cash Equivalents	0.6
Total	100.0

* The Fund holds fewer than 25 holdings.

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.rbcgam.com/funds, or by emailing us at info@phn.com.

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at www.sedar.com.

CANADIAN EQUITY FUND

PHILLIPS, HAGER & NORTH
DIVIDEND INCOME FUND

 December 31, 2017

Portfolio Manager *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 8, 2018.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to provide investors with long-term capital growth and income by investing primarily in a well-diversified portfolio of dividend income-producing Canadian securities that have a relatively high yield. The securities are selected based on their long-term earnings potential and their ability to sustain an attractive yield over the long term. To achieve the Fund's investment objective, the portfolio manager invests primarily in large-capitalization, dividend-paying Canadian common shares and, to a lesser extent, preferred shares and bonds. U.S. stocks may be held in the Fund to complement its Canadian holdings, and will typically be concentrated in industries that are not well represented in the Canadian market.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

Effective June 30, 2017, RBC GAM adopted the risk classification methodology under National Instrument 81-102 – *Investment Funds* (the "new risk classification methodology"). Pursuant to the new risk classification methodology, certain funds' risk ratings were changed. RBC GAM reviews each fund's risk rating on an annual basis or if there has been a material change to a fund's investment objectives or investment strategies. Any changes to a fund's risk rating are the result of RBC GAM's annual review and the adoption of the new risk classification methodology.

There were no changes to the Fund's risk rating during the reporting period.

Results of Operations

The Fund's net asset value was unchanged at \$2.6 billion as of December 31, 2017, compared with the end of 2016.

Over the past year, the Fund's Series O units gained 9.2%, which outperformed the 9.1% rise in the benchmark. The Fund's return is after the deduction of expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

Global equity markets rallied across the board, with many recording record highs. The strength was supported by a global economic expansion and renewed corporate profit growth. The S&P/TSX Composite Index was one of the worst-performing developed-market benchmarks given continued weakness in the Energy sector, a

stronger Canadian dollar, uncertainty about the future of the North American Free Trade Agreement and concern about the impact of a slowing housing market.

The best relative-performing sectors in the Fund were Energy, Utilities and Financials. Consumer Discretionary, Health Care and Information Technology underperformed relative to the benchmark.

The Fund's performance was driven by stocks including Brookfield Asset Management, Brookfield Infrastructure Partners and Cott. Brookfield Asset Management continued to take advantage of its ability to raise funds and make acquisitions across numerous asset classes. Brookfield Infrastructure, a publicly traded partnership controlled by Brookfield Asset, achieved its distribution targets and continued to offer investors an attractive combination of income and growth. Cott has transformed itself into a company that distributes coffee, coffee-making equipment and bottled water to businesses after selling its slow-growing private-label soft-drink business.

The Fund's performance was negatively impacted by a position in Bonterra Energy and a decision to not invest in Dollarama, which performed well during the period.

Stocks added to the portfolio during the year included Jamieson Wellness, Tricon Capital Group and WPT Industrial. Positions in Milestone Apartments REIT and Northland Power were eliminated.

Recent Developments

The recent rally has pushed equities closer to fair value, and without support from rising valuations, continued corporate profit growth will be needed to fuel further gains. The recently enacted corporate tax cuts in the U.S. are expected to provide an additional boost to profits, but a portion of the anticipated changes has been priced in. Given current valuations, stocks would be vulnerable if earnings underwhelm or if tax reform fails to materialize.

The U.S. Federal Reserve raised short-term interest rates three times in 2017, and has signalled that it intends to hike a further three times in 2018. The Bank of Canada raised rates twice in 2017, but has reiterated its caution on rate hikes going forward given the domestic economic headwinds.

Related-Party Transactions

Manager and Portfolio Manager

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank and is the manager and principal portfolio manager of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays

certain operating expenses of the Fund. Both the management fee and fixed administration fee are calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund.

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies. The Fund also maintains bank accounts and overdraft provisions with Royal Bank for which Royal Bank may earn a fee. Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series A, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and holds title to the Fund's property on behalf of unitholders. RBC IS is the custodian of the Fund and holds the assets of the Fund.

RBC IS earns a fee as the trustee and custodian, which is paid by the manager from the fixed administration fee paid by the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund. The registrars earn a fee, which is paid by the manager from the fixed administration fee paid by the Fund.

Brokers and Dealers

The Fund has established standard brokerage and dealing agreements at market rates with related parties. These related-party commissions were \$58,000 (2016 – \$44,000), or 12% (2016 – 7%) of the total transaction costs paid for this Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Independent Review Committee with respect to one or more of the following transactions:

Related-Party Trading Activities

- (a) trades in securities of Royal Bank;
- (b) investments in the securities of issuers for which a related-party dealer acted as an underwriter during the distribution of such securities and the 60-day period following the conclusion of such distribution of the underwritten securities to the public;

- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal; and

Inter-Fund Trading

- (d) purchases or sales of securities of an issuer from or to another investment fund or managed account managed by RBC GAM.

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²					Net Assets End of Year/Period
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series A												
Dec. 31, 2017	103.90	3.50	(1.98)	5.02	0.86	7.40	(0.01)	(1.34)	(2.11)	—	(3.46)	107.83
Dec. 31, 2016	87.03	3.39	(1.84)	1.66	14.96	18.17	—	(1.44)	—	—	(1.44)	103.90
Dec. 31, 2015	97.40	3.50	(1.91)	2.06	(12.47)	(8.82)	—	(1.45)	—	—	(1.45)	87.03
Dec. 31, 2014	90.69	3.23	(1.96)	3.05	3.99	8.31	—	(1.17)	(0.31)	—	(1.48)	97.40
Dec. 31, 2013	79.60	2.88	(1.71)	1.37	9.57	12.11	—	(1.06)	—	—	(1.06)	90.66
Advisor Series												
Dec. 31, 2017	103.91	3.50	(1.98)	5.03	1.10	7.65	(0.01)	(1.33)	(2.16)	—	(3.50)	107.82
Dec. 31, 2016	87.06	3.40	(1.84)	1.66	14.69	17.91	—	(1.44)	—	—	(1.44)	103.91
Dec. 31, 2015	97.42	3.50	(1.91)	2.07	(12.48)	(8.82)	—	(1.44)	—	—	(1.44)	87.06
Dec. 31, 2014	90.70	3.23	(1.96)	3.05	3.99	8.31	—	(1.17)	(0.31)	—	(1.48)	97.42
Dec. 31, 2013	79.60	2.88	(1.74)	1.36	9.55	12.05	—	(1.06)	—	—	(1.06)	90.68
Series D												
Dec. 31, 2017	102.91	3.47	(1.04)	4.98	0.81	8.22	(0.02)	(2.27)	(2.10)	—	(4.39)	106.78
Dec. 31, 2016	86.24	3.36	(1.00)	1.64	14.84	18.84	—	(2.29)	—	—	(2.29)	102.91
Dec. 31, 2015	96.54	3.47	(1.08)	2.05	(12.37)	(7.93)	—	(2.25)	—	—	(2.25)	86.24
Dec. 31, 2014	89.87	3.20	(1.11)	3.02	3.95	9.06	—	(1.98)	(0.31)	—	(2.29)	96.54
Dec. 31, 2013	78.85	2.85	(0.97)	1.36	9.49	12.73	—	(1.75)	—	—	(1.75)	89.85
Series F												
Dec. 31, 2017	103.73	3.50	(0.81)	5.02	1.14	8.85	(0.02)	(2.55)	(2.11)	—	(4.68)	107.62
Dec. 31, 2016	86.92	3.39	(0.79)	1.66	15.17	19.43	—	(2.52)	—	—	(2.52)	103.73
Dec. 31, 2015	97.28	3.50	(0.87)	2.07	(12.48)	(7.78)	—	(2.46)	—	—	(2.46)	86.92
Dec. 31, 2014	90.51	3.23	(0.89)	3.05	3.98	9.37	—	(2.17)	(0.31)	—	(2.48)	97.28
Dec. 31, 2013	79.40	2.87	(0.78)	1.37	9.56	13.02	—	(1.95)	—	—	(1.95)	90.48
Series O												
Dec. 31, 2017	101.31	3.42	(0.02)	4.91	0.82	9.13	(0.02)	(3.25)	(2.09)	—	(5.36)	105.09
Dec. 31, 2016	84.92	3.31	(0.02)	1.62	14.68	19.59	—	(3.26)	—	—	(3.26)	101.31
Dec. 31, 2015	95.08	3.42	(0.02)	2.02	(12.19)	(6.77)	—	(3.25)	—	—	(3.25)	84.92
Dec. 31, 2014	88.43	3.15	(0.02)	2.97	3.89	9.99	—	(2.93)	(0.31)	—	(3.24)	95.08
Dec. 31, 2013	77.50	2.81	(0.02)	1.34	9.35	13.48	—	(2.58)	—	—	(2.58)	88.40

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series A							
Dec. 31, 2017	107.83	74 477	691	1.87	1.87	9.43	0.02
Dec. 31, 2016	103.90	74 417	716	1.94 ⁴	1.94	11.19	0.03
Dec. 31, 2015	87.03	59 220	680	2.03	2.03	5.28	0.01
Dec. 31, 2014	97.40	72 740	747	2.03	2.03	12.85	0.02
Dec. 31, 2013	90.69	71 435	788	2.03	2.03	13.49	0.02
Advisor Series							
Dec. 31, 2017	107.82	11 765	109	1.87	1.87	9.43	0.02
Dec. 31, 2016	103.91	10 934	105	1.94 ⁴	1.94	11.19	0.03
Dec. 31, 2015	87.06	6 470	74	2.03	2.03	5.28	0.01
Dec. 31, 2014	97.42	7 596	78	2.03	2.03	12.85	0.02
Dec. 31, 2013	90.70	7 258	80	2.03	2.03	13.49	0.02
Series D							
Dec. 31, 2017	106.78	1 696 795	15 891	0.99	0.99	9.43	0.02
Dec. 31, 2016	102.91	1 681 957	16 344	1.07 ⁴	1.07	11.19	0.03
Dec. 31, 2015	86.24	1 498 563	17 377	1.16	1.16	5.28	0.01
Dec. 31, 2014	96.54	1 801 970	18 665	1.16	1.16	12.85	0.02
Dec. 31, 2013	89.87	1 780 315	19 809	1.16	1.16	13.49	0.02
Series F							
Dec. 31, 2017	107.62	61 085	568	0.76	0.76	9.43	0.02
Dec. 31, 2016	103.73	46 199	445	0.84 ⁴	0.84	11.19	0.03
Dec. 31, 2015	86.92	32 131	370	0.93	0.93	5.28	0.01
Dec. 31, 2014	97.28	29 891	307	0.92	0.92	12.85	0.02
Dec. 31, 2013	90.51	25 654	283	0.93	0.93	13.49	0.02
Series O							
Dec. 31, 2017	105.09	783 228	7 453	0.02	0.02	9.43	0.02
Dec. 31, 2016	101.31	773 160	7 632	0.02	0.02	11.19	0.03
Dec. 31, 2015	84.92	667 635	7 862	0.02	0.02	5.28	0.01
Dec. 31, 2014	95.08	771 709	8 117	0.02	0.02	12.85	0.02
Dec. 31, 2013	88.43	760 069	8 596	0.02	0.02	13.49	0.02

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ Effective June 30, 2016, the management fees were changed in respect of Series A, Advisor Series, Series D and Series F units of the Fund. If the changes to the management fees would have been in effect throughout 2016, the adjusted MER for each series of the Fund would be: Series A – 1.87%, Advisor Series – 1.87%, Series D – 0.99% and Series F – 0.76%.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio manager of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series A	1.60%	63%	37%
Advisor Series	1.60%	63%	37%
Series D	0.85%	29%	71%
Series F	0.60%	—	100%

Series O – no management fees are paid by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

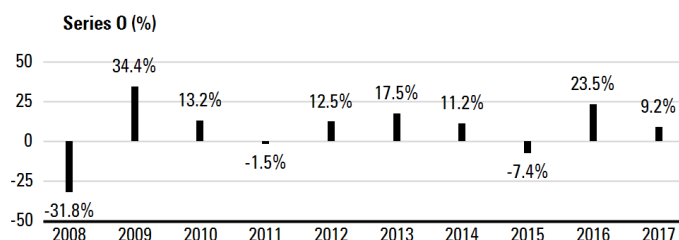
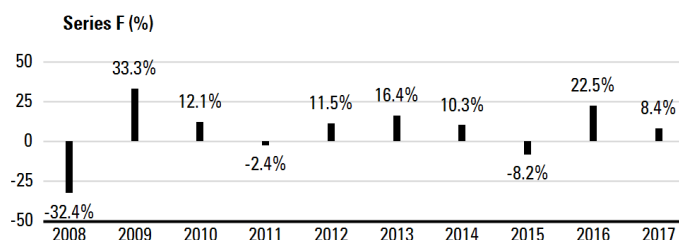
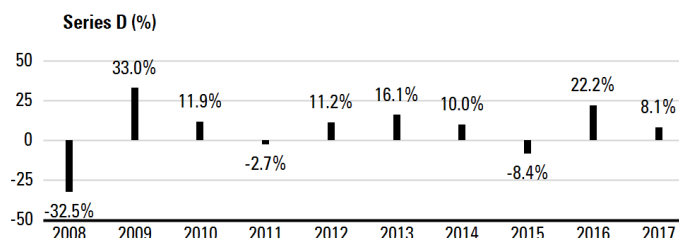
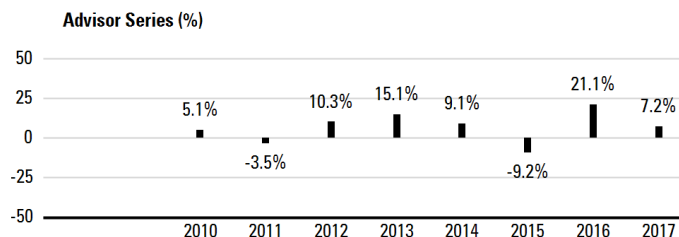
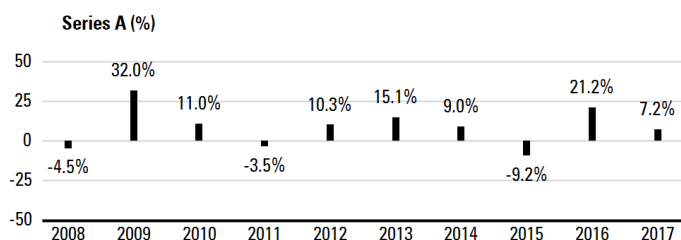
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



PAST PERFORMANCE (cont.)

Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2017, compared with the following benchmark:

S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	7.2	5.6	8.2	—	9.1
Benchmark	9.1	6.6	8.6	—	10.0
Advisor Series	7.2	5.6	8.2	—	7.3
Benchmark	9.1	6.6	8.6	—	6.6
Series D	8.1	6.6	9.1	5.3	—
Benchmark	9.1	6.6	8.6	4.7	—
Series F	8.4	6.8	9.4	5.6	—
Benchmark	9.1	6.6	8.6	4.7	—
Series O	9.2	7.7	10.3	6.5	—
Benchmark	9.1	6.6	8.6	4.7	—

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Advisor Series units have been available for sale to unitholders since October 2010, and Series A units since November 2008.

Inception dates are not provided for series that have been in existence for more than 10 years.

All outstanding Series C units were renamed Series A units effective June 30, 2016. Series D was known as Series A prior to November 17, 2008.

INDEX DESCRIPTION

S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2017

Investment Mix

	% of Net Asset Value
Financials	42.9
Energy	19.4
Industrials	8.5
Telecommunication Services	5.0
Materials	5.0
Consumer Staples	4.6
Utilities	4.1
Consumer Discretionary	3.9
Real Estate	3.5
Information Technology	0.8
Health Care	0.7
Cash/Other	1.6

Top 25 Holdings

	% of Net Asset Value
Royal Bank of Canada	8.7
Toronto-Dominion Bank	7.6
Bank of Nova Scotia	5.8
Canadian National Railway Co.	4.6
Enbridge Inc.	4.0
Bank of Montreal	4.0
Brookfield Asset Management Inc., Class A	3.7
Manulife Financial Corporation	3.2
Suncor Energy Inc.	3.2
Canadian Imperial Bank of Commerce	3.0
TransCanada Corp.	2.8
BCE Inc.	2.4
Sun Life Financial Inc.	2.1
Canadian Natural Resources Ltd.	2.0
Loblaw Companies Ltd.	1.7
Magna International Inc., Class A	1.6
Canadian Pacific Railway Ltd.	1.5
Intact Financial Corp.	1.5
Waste Connections Inc.	1.4
Rogers Communications Inc., Class B	1.4
Alimentation Couche-Tard Inc.	1.3
TELUS Corp.	1.3
Pembina Pipeline Corp.	1.1
Power Corporation of Canada	1.0
Cenovus Energy Inc.	0.9
Top 25 Holdings	71.8

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.rbcgam.com/funds, or by emailing us at info@phn.com.

CANADIAN EQUITY FUND

PHILLIPS, HAGER & NORTH
CANADIAN EQUITY FUND

 December 31, 2017

Portfolio Manager *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 8, 2018.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to provide investors with long-term capital growth by investing primarily in a well-diversified portfolio of common shares of Canadian companies. To achieve the Fund's investment objective, the portfolio manager invests in companies that they believe have a superior management team, a leadership position in their industry, a high level of profitability compared to their peers, strong earnings potential and a reasonable valuation.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

Effective June 30, 2017, RBC GAM adopted the risk classification methodology under National Instrument 81-102 – *Investment Funds* (the "new risk classification methodology"). Pursuant to the new risk classification methodology, certain funds' risk ratings were changed. RBC GAM reviews each fund's risk rating on an annual basis or if there has been a material change to a fund's investment objectives or investment strategies. Any changes to a fund's risk rating are the result of RBC GAM's annual review and the adoption of the new risk classification methodology.

There were no changes to the Fund's risk rating during the reporting period.

Results of Operations

The Fund's net asset value fell to \$1.1 billion as of December 31, 2017, from \$1.2 billion at the end of 2016. The decrease was due to net redemptions, offset by investment returns.

Over the past year, the Fund's Series O units gained 6.4%, which underperformed the 9.1% rise in the benchmark. The Fund's return is after the deduction of expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

The Canadian equity market, as measured by the S&P/TSX Capped Composite Index, surged to record highs to close out 2017. Ten out of the 11 industry sectors posted gains during the year, with Energy being the only one to decline. A rise in oil prices in the latter half of 2017 muted some of the sector's negative impact. The Financials, Consumer Discretionary and Industrials sectors contributed the most to index returns after a slow start to the year, offsetting mid-year worries related to surging home prices and consumer debt.

In the Financials sector, a position in Home Capital Group held back the Fund's returns over the year. The Energy sector was the biggest detractor to performance, with positions in Cenovus Energy and Crescent Point Energy having a large negative impact during the period.

In the Consumer Discretionary sector, the Fund's overweight position in Dollarama added significantly to returns. The Fund's holdings in the Utilities sector aided returns, led by Brookfield Infrastructure Partners and Fortis.

Recent Developments

Economic momentum in developed and emerging markets has shown little sign of slowing, and low inflation and accommodative monetary policies remain supportive. Synchronized global growth continues to be led by the U.S., whose central bank will likely continue with interest-rate hikes in 2018. The recently enacted U.S. tax cuts have the potential to maintain corporate earnings momentum. A steady and sustained expansion continues globally but political tensions remain a risk on the horizon.

Related-Party Transactions

Manager and Portfolio Manager

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank and is the manager and principal portfolio manager of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund. Both the management fee and fixed administration fee are calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund.

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies. The Fund also maintains bank accounts and overdraft provisions with Royal Bank for which Royal Bank may earn a fee. Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series A, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and holds title to the Fund's property on behalf of unitholders. RBC IS is the custodian of the Fund and holds the assets of the Fund.

RBC IS earns a fee as the trustee and custodian, which is paid by the manager from the fixed administration fee paid by the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund. The registrars earn a fee, which is paid by the manager from the fixed administration fee paid by the Fund.

Brokers and Dealers

The Fund has established standard brokerage and dealing agreements at market rates with related parties. These related-party commissions were \$33,000 (2016 – \$78,000), or 6% (2016 – 10%) of the total transaction costs paid for this Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Independent Review Committee with respect to one or more of the following transactions:

Related-Party Trading Activities

- (a) trades in securities of Royal Bank;
- (b) investments in the securities of issuers for which a related-party dealer acted as an underwriter during the distribution of such securities and the 60-day period following the conclusion of such distribution of the underwritten securities to the public;
- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal; and

Inter-Fund Trading

- (d) purchases or sales of securities of an issuer from or to another investment fund or managed account managed by RBC GAM.

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²					Net Assets End of Year/Period
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series A												
Dec. 31, 2017	101.67	2.58	(1.87)	6.10	(2.76)	4.05	(0.01)	(0.64)	(3.50)	—	(4.15)	102.09
Dec. 31, 2016	84.33	2.53	(1.78)	2.64	14.23	17.62	—	(0.67)	—	—	(0.67)	101.67
Dec. 31, 2015	94.27	2.63	(1.90)	1.39	(10.12)	(8.00)	—	(0.75)	(1.01)	—	(1.76)	84.33
Dec. 31, 2014	91.45	2.47	(2.00)	9.07	0.14	9.68	—	(0.60)	(5.75)	—	(6.35)	94.27
Dec. 31, 2013	77.99	2.16	(1.67)	2.51	10.72	13.72	—	(0.45)	—	—	(0.45)	91.42
Advisor Series												
Dec. 31, 2017	101.71	2.58	(1.87)	6.11	(2.36)	4.46	(0.01)	(0.64)	(3.50)	—	(4.15)	102.17
Dec. 31, 2016	84.36	2.53	(1.78)	2.64	14.53	17.92	—	(0.67)	—	—	(0.67)	101.71
Dec. 31, 2015	94.29	2.63	(1.90)	1.39	(10.11)	(7.99)	—	(0.75)	(1.01)	—	(1.76)	84.36
Dec. 31, 2014	91.46	2.48	(2.01)	9.10	0.14	9.71	—	(0.60)	(5.75)	—	(6.35)	94.29
Dec. 31, 2013	77.99	2.15	(1.73)	2.49	10.70	13.61	—	(0.45)	—	—	(0.45)	91.43
Series D												
Dec. 31, 2017	98.61	2.51	(0.98)	5.95	(2.20)	5.28	(0.02)	(1.50)	(3.42)	—	(4.94)	99.00
Dec. 31, 2016	81.84	2.46	(0.95)	2.57	14.18	18.26	—	(1.56)	—	—	(1.56)	98.61
Dec. 31, 2015	91.51	2.56	(1.05)	1.35	(9.85)	(6.99)	—	(1.48)	(0.99)	—	(2.47)	81.84
Dec. 31, 2014	88.91	2.41	(1.11)	8.84	0.13	10.27	—	(1.41)	(5.75)	—	(7.16)	91.51
Dec. 31, 2013	75.83	2.10	(0.93)	2.44	10.44	14.05	—	(1.20)	—	—	(1.20)	88.89
Series F												
Dec. 31, 2017	100.68	2.57	(0.77)	6.09	(1.96)	5.93	(0.02)	(1.76)	(3.51)	—	(5.29)	101.06
Dec. 31, 2016	83.52	2.52	(0.76)	2.63	14.69	19.08	—	(1.79)	—	—	(1.79)	100.68
Dec. 31, 2015	93.41	2.61	(0.86)	1.38	(10.07)	(6.94)	—	(1.71)	(1.01)	—	(2.72)	83.52
Dec. 31, 2014	90.62	2.46	(0.91)	9.03	0.13	10.71	—	(1.63)	(5.75)	—	(7.38)	93.41
Dec. 31, 2013	77.29	2.15	(0.77)	2.50	10.69	14.57	—	(1.42)	—	—	(1.42)	90.60
Series O												
Dec. 31, 2017	98.04	2.51	(0.02)	5.94	(2.12)	6.31	(0.03)	(2.49)	(3.45)	—	(5.97)	98.35
Dec. 31, 2016	81.34	2.46	(0.02)	2.57	14.08	19.09	—	(2.56)	—	—	(2.56)	98.04
Dec. 31, 2015	91.06	2.56	(0.02)	1.35	(9.85)	(5.96)	—	(2.47)	(1.02)	—	(3.49)	81.34
Dec. 31, 2014	88.46	2.41	(0.02)	8.82	0.13	11.34	—	(2.45)	(5.75)	—	(8.20)	91.06
Dec. 31, 2013	75.45	2.10	(0.02)	2.45	10.47	15.00	—	(2.19)	—	—	(2.19)	88.43

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series A							
Dec. 31, 2017	102.09	18 126	178	1.83	1.83	26.49	0.06
Dec. 31, 2016	101.67	22 124	218	1.93 ⁴	1.93	35.41	0.08
Dec. 31, 2015	84.33	18 743	222	2.02	2.02	26.84	0.07
Dec. 31, 2014	94.27	14 195	151	2.02	2.02	31.71	0.09
Dec. 31, 2013	91.45	12 632	138	2.02	2.02	21.73	0.08
Advisor Series							
Dec. 31, 2017	102.17	1 443	14	1.83	1.83	26.49	0.06
Dec. 31, 2016	101.71	1 412	14	1.93 ⁴	1.93	35.41	0.08
Dec. 31, 2015	84.36	1 087	13	2.02	2.02	26.84	0.07
Dec. 31, 2014	94.29	1 445	15	2.02	2.02	31.71	0.09
Dec. 31, 2013	91.46	983	11	2.02	2.02	21.73	0.08
Series D							
Dec. 31, 2017	99.00	506 955	5 121	0.98	0.98	26.49	0.06
Dec. 31, 2016	98.61	509 894	5 171	1.06 ⁴	1.06	35.41	0.08
Dec. 31, 2015	81.84	448 506	5 480	1.15	1.15	26.84	0.07
Dec. 31, 2014	91.51	532 249	5 816	1.15	1.15	31.71	0.09
Dec. 31, 2013	88.91	521 091	5 861	1.15	1.15	21.73	0.08
Series F							
Dec. 31, 2017	101.06	14 073	139	0.76	0.76	26.49	0.06
Dec. 31, 2016	100.68	10 109	100	0.83 ⁴	0.83	35.41	0.08
Dec. 31, 2015	83.52	7 583	91	0.92	0.92	26.84	0.07
Dec. 31, 2014	93.41	7 413	79	0.92	0.92	31.71	0.09
Dec. 31, 2013	90.62	6 369	70	0.93	0.93	21.73	0.08
Series O							
Dec. 31, 2017	98.35	600 242	6 103	0.02	0.02	26.49	0.06
Dec. 31, 2016	98.04	613 835	6 261	0.02	0.02	35.41	0.08
Dec. 31, 2015	81.34	565 810	6 956	0.02	0.02	26.84	0.07
Dec. 31, 2014	91.06	635 688	6 981	0.02	0.02	31.71	0.09
Dec. 31, 2013	88.46	698 439	7 896	0.02	0.02	21.73	0.08

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ Effective June 30, 2016, the management fees were changed in respect of Series A, Advisor Series, Series D and Series F units of the Fund. If the changes to the management fees would have been in effect throughout 2016, the adjusted MER for each series of the Fund would be: Series A – 1.86%, Advisor Series – 1.86%, Series D – 0.98% and Series F – 0.76%.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio manager of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series A	1.60%	63%	37%
Advisor Series	1.60%	63%	37%
Series D	0.85%	29%	71%
Series F	0.60%	—	100%

Series O – no management fees are paid by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

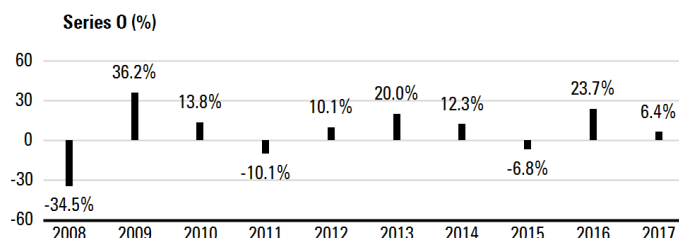
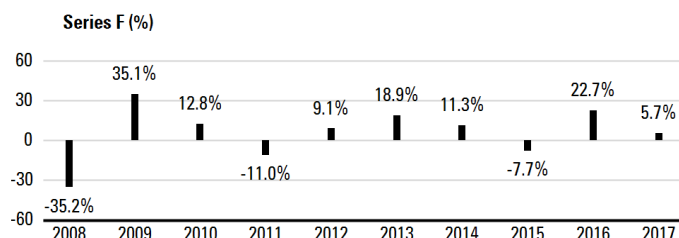
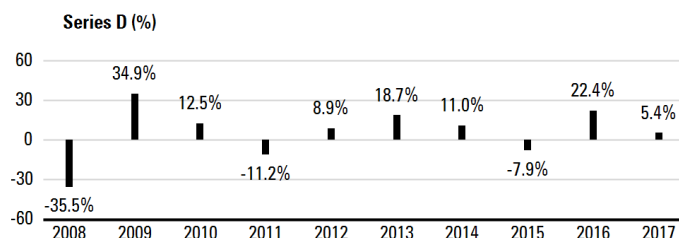
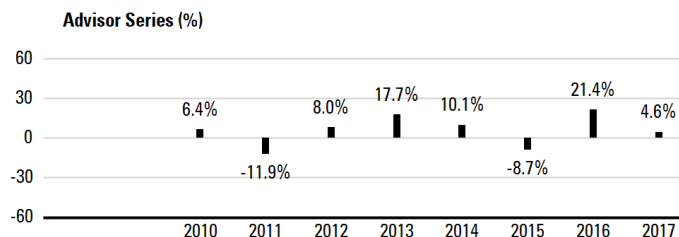
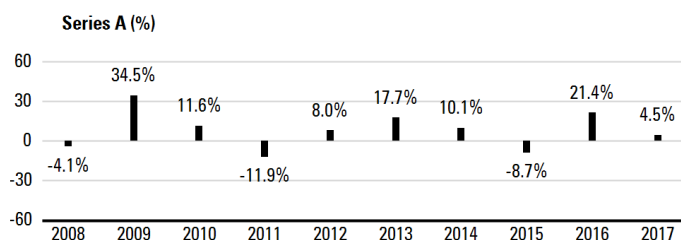
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

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Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



PAST PERFORMANCE (cont.)

Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2017, compared with the following benchmark:

S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	4.5	5.0	8.5	—	8.2
Benchmark	9.1	6.6	8.6	—	10.0
Advisor Series	4.6	5.0	8.5	—	6.0
Benchmark	9.1	6.6	8.6	—	6.6
Series D	5.4	5.9	9.4	4.0	—
Benchmark	9.1	6.6	8.6	4.7	—
Series F	5.7	6.2	9.6	4.3	—
Benchmark	9.1	6.6	8.6	4.7	—
Series O	6.4	7.0	10.6	5.2	—
Benchmark	9.1	6.6	8.6	4.7	—

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Advisor Series units have been available for sale to unitholders since October 2010, and Series A units since November 2008.

Inception dates are not provided for series that have been in existence for more than 10 years.

All outstanding Series C units were renamed Series A units effective June 30, 2016. Series D was known as Series A prior to November 17, 2008.

INDEX DESCRIPTION

S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2017

Investment Mix

	% of Net Asset Value
Financials	37.2
Energy	22.7
Industrials	8.9
Consumer Discretionary	8.8
Materials	8.1
Information Technology	4.6
Consumer Staples	3.3
Real Estate	2.6
Utilities	1.5
Telecommunication Services	0.9
Cash/Other	1.4

Top 25 Holdings

	% of Net Asset Value
Phillips, Hager & North Small Float Fund	11.0
Toronto-Dominion Bank	7.5
Royal Bank of Canada	7.0
Enbridge Inc.	5.4
Bank of Nova Scotia	5.1
Brookfield Asset Management Inc., Class A	3.9
Manulife Financial Corporation	3.3
TransCanada Corp.	2.7
Canadian National Railway Co.	2.6
Canadian Imperial Bank of Commerce	2.4
Alimentation Couche-Tard Inc.	2.4
Canadian Natural Resources Ltd.	2.2
Bank of Montreal	2.1
Dollarama Inc.	2.0
CGI Group Inc., Class A	1.8
Waste Connections Inc.	1.7
Suncor Energy Inc.	1.7
Encana Corp.	1.6
Fairfax Financial Holdings Ltd.	1.5
Open Text Corp.	1.5
Shaw Communications Inc., Class B	1.5
ARC Resources Ltd.	1.4
Keyera Corp.	1.2
Canadian Pacific Railway Ltd.	1.2
Seven Generations Energy Ltd.	1.2
Top 25 Holdings	75.9

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.rbcgam.com/funds, or by emailing us at info@phn.com.

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at www.sedar.com.

CANADIAN EQUITY FUND

PHILLIPS, HAGER & NORTH
CANADIAN EQUITY VALUE FUND

December 31, 2017

Portfolio Manager *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 8, 2018.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to provide long-term capital growth. To achieve the Fund's investment objective, the portfolio manager invests primarily in equities of Canadian companies priced below the manager's assessment of their true value and offering long-term opportunities for growth.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

Effective June 30, 2017, RBC GAM adopted the risk classification methodology under National Instrument 81-102 – *Investment Funds* (the "new risk classification methodology"). Pursuant to the new risk classification methodology, certain funds' risk ratings were changed. RBC GAM reviews each fund's risk rating on an annual basis or if there has been a material change to a fund's investment objectives or investment strategies. Any changes to a fund's risk rating are the result of RBC GAM's annual review and the adoption of the new risk classification methodology.

There were no changes to the Fund's risk rating during the reporting period.

Results of Operations

The Fund's net asset value was \$1.2 billion as of December 31, 2017, unchanged from the end of 2016.

Over the past year, the Fund's Series O units gained 9.3%, which outperformed the 9.1% rise in the benchmark. The Fund's return is after the deduction of expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

The Canadian stock market lagged most other major equity markets during 2017. The index was held back by the Energy sector, appreciation in the Canadian dollar and concern that the economy lacks a growth driver to offset the slowing housing market. Furthermore, market sentiment continues to be hurt by ongoing uncertainty regarding the North American Free Trade Agreement.

The Bank of Canada surprised markets this year by shifting to a hawkish stance, hiking interest rates twice on the back of strong economic growth. However, the Canadian economy is not without risks. In addition to housing concerns, items that may impact Canada's

competitiveness include protectionism, increasing taxes, tougher labour laws, stricter environmental standards, rising electricity costs and persistently low oil prices.

During the year, the Fund's relative performance was boosted by the Energy and Materials sectors, while Consumer Discretionary had a negative impact.

Energy was the worst-performing TSX sector in 2017, due to volatility in crude oil prices, weak natural-gas prices and ongoing bottlenecks in our energy infrastructure. Security selection in the sector aided relative returns during the period. In particular, the Fund's lack of exposure to Seven Generations Energy boosted returns as the stock recorded a large decline during the year.

The Materials sector trailed the broader market as gold equities, which make up roughly half of the sector's weight, retreated amid uncertainty in the outlook for gold prices. The Fund benefited from underweight exposure to gold equities and an overweight position in Teck Resources, which rallied in the latter half of 2017 on healthy demand and price gains for copper and zinc.

The Consumer Discretionary sector rose overall in 2017. However, traditional retailers have been under pressure as consumers shift towards purchasing items online and for experiences rather than material goods. The Fund's lack of exposure to Dollarama detracted from relative returns as the stock performed well. However, the portfolio manager is concerned about the stock's current valuation.

Recent Developments

Global stock markets continue to be supported by the synchronized global expansion and better-than-expected corporate profit growth around the world, but the recent rally has pushed equities closer to fair value. It may be prudent to lower total-return expectations and consider the potential for higher volatility in the months ahead. Without support from rising valuations, further gains in stocks will likely be paced by corporate profit growth.

Related-Party Transactions

Manager and Portfolio Manager

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank and is the manager and principal portfolio manager of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund. Both the management fee and fixed administration fee are calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund.

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies. The Fund also maintains bank accounts and overdraft provisions with Royal Bank for which Royal Bank may earn a fee. Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series A, Advisor Series, Series T5 and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and holds title to the Fund's property on behalf of unitholders. RBC IS is the custodian of the Fund and holds the assets of the Fund.

RBC IS earns a fee as the trustee and custodian, which is paid by the manager from the fixed administration fee paid by the Fund.

Registrars

RBC GAM, RBC IS and Royal Bank are the registrars of the Fund and keep records of who owns units of the Fund. The registrars earn a fee, which is paid by the manager from the fixed administration fee paid by the Fund.

Brokers and Dealers

The Fund has established standard brokerage and dealing agreements at market rates with related parties. These related-party commissions were \$144,000 (2016 – \$155,000), or 17% (2016 – 16%) of the total transaction costs paid for this Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Independent Review Committee with respect to one or more of the following transactions:

Related-Party Trading Activities

- (a) trades in securities of Royal Bank;
- (b) investments in the securities of issuers for which a related-party dealer acted as an underwriter during the distribution of such securities and the 60-day period following the conclusion of such distribution of the underwritten securities to the public;
- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal; and

Inter-Fund Trading

- (d) purchases or sales of securities of an issuer from or to another investment fund or managed account managed by RBC GAM.

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²					Net Assets End of Year/Period
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital	Total	
Series A												
Dec. 31, 2017	13.96	0.38	(0.27)	0.82	0.05	0.98	—	(0.09)	(0.49)	—	(0.58)	14.40
Dec. 31, 2016	11.75	0.37	(0.25)	0.26	1.96	2.34	—	(0.11)	—	—	(0.11)	13.96
Dec. 31, 2015	13.31	0.39	(0.26)	0.48	(1.67)	(1.06)	—	(0.06)	(0.47)	—	(0.53)	11.75
Dec. 31, 2014	12.86	0.41	(0.28)	1.43	(0.31)	1.25	—	(0.04)	(0.96)	—	(1.00)	13.31
Dec. 31, 2013	11.33	0.36	(0.24)	0.20	1.62	1.94	—	—	—	—	—	12.85
Advisor Series												
Dec. 31, 2017	13.95	0.38	(0.27)	0.82	0.07	1.00	—	(0.09)	(0.49)	—	(0.58)	14.39
Dec. 31, 2016	11.74	0.37	(0.25)	0.27	1.90	2.29	—	(0.11)	—	—	(0.11)	13.95
Dec. 31, 2015	13.30	0.39	(0.26)	0.48	(1.67)	(1.06)	—	(0.06)	(0.46)	—	(0.52)	11.74
Dec. 31, 2014	12.86	0.32	(0.29)	1.10	(0.24)	0.89	—	(0.04)	(0.95)	—	(0.99)	13.30
Dec. 31, 2013	11.33	0.35	(0.25)	0.19	1.56	1.85	—	—	—	—	—	12.85
Series T5												
Dec. 31, 2017 ³	13.89 [†]	0.13	(0.09)	0.28	0.77	1.09	(0.01)	(0.03)	(0.48)	—	(0.52)	14.46
Series D												
Dec. 31, 2017	14.13	0.39	(0.15)	0.83	0.09	1.16	—	(0.22)	(0.49)	—	(0.71)	14.57
Dec. 31, 2016	11.89	0.38	(0.14)	0.27	1.95	2.46	—	(0.23)	—	—	(0.23)	14.13
Dec. 31, 2015	13.47	0.40	(0.16)	0.48	(1.69)	(0.97)	—	(0.17)	(0.47)	—	(0.64)	11.89
Dec. 31, 2014	13.00	0.42	(0.17)	1.45	(0.32)	1.38	—	(0.16)	(0.96)	—	(1.12)	13.47
Dec. 31, 2013	11.45	0.37	(0.15)	0.20	1.64	2.06	—	—	—	—	—	12.99
Series F												
Dec. 31, 2017	14.15	0.39	(0.11)	0.83	0.09	1.20	—	(0.26)	(0.50)	—	(0.76)	14.59
Dec. 31, 2016	11.91	0.38	(0.11)	0.27	2.02	2.56	—	(0.27)	—	—	(0.27)	14.15
Dec. 31, 2015	13.49	0.40	(0.12)	0.48	(1.70)	(0.94)	—	(0.20)	(0.47)	—	(0.67)	11.91
Dec. 31, 2014	13.03	0.39	(0.13)	1.37	(0.30)	1.33	—	(0.21)	(0.96)	—	(1.17)	13.49
Dec. 31, 2013	11.48	0.36	(0.11)	0.20	1.63	2.08	—	—	—	—	—	13.02
Series FT5												
Dec. 31, 2017 ³	14.18 [†]	0.13	(0.04)	0.28	0.79	1.16	—	(0.09)	(0.49)	—	(0.58)	14.77
Series O												
Dec. 31, 2017	14.02	0.39	—	0.83	0.09	1.31	—	(0.38)	(0.49)	—	(0.87)	14.46
Dec. 31, 2016	11.80	0.38	—	0.27	1.96	2.61	—	(0.38)	—	—	(0.38)	14.02
Dec. 31, 2015	13.38	0.39	—	0.47	(1.66)	(0.80)	—	(0.31)	(0.48)	—	(0.79)	11.80
Dec. 31, 2014	12.99	0.42	(0.01)	1.45	(0.32)	1.54	—	(0.40)	(0.96)	—	(1.36)	13.38
Dec. 31, 2013	11.45	0.36	(0.01)	0.20	1.62	2.17	—	—	—	—	—	12.99

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From August 28, 2017.

[†] Initial offering net asset value per unit.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series A							
Dec. 31, 2017	14.40	13 309	925	1.87	1.87	34.20	0.07
Dec. 31, 2016	13.96	15 014	1 076	1.93 ⁴	1.93	42.91	0.08
Dec. 31, 2015	11.75	9 252	787	2.03	2.03	43.12	0.09
Dec. 31, 2014	13.31	11 320	851	2.07	2.07	72.04	0.13
Dec. 31, 2013	12.86	10 343	804	2.06	2.06	70.36	0.18
Advisor Series							
Dec. 31, 2017	14.39	208 741	14 506	1.87	1.87	34.20	0.07
Dec. 31, 2016	13.95	223 263	16 004	1.95 ⁴	1.95	42.91	0.08
Dec. 31, 2015	11.74	216 457	18 432	2.03	2.03	43.12	0.09
Dec. 31, 2014	13.30	279 083	20 990	2.06	2.06	72.04	0.13
Dec. 31, 2013	12.86	1 910	149	2.06	2.06	70.36	0.18
Series T5							
Dec. 31, 2017⁵	14.46	1	—	1.92	1.92	34.20	0.07
Series D							
Dec. 31, 2017	14.57	88 841	6 096	1.02	1.02	34.20	0.07
Dec. 31, 2016	14.13	80 409	5 691	1.10 ⁴	1.10	42.91	0.08
Dec. 31, 2015	11.89	64 665	5 437	1.19	1.19	43.12	0.09
Dec. 31, 2014	13.47	70 944	5 267	1.19	1.19	72.04	0.13
Dec. 31, 2013	13.00	62 460	4 804	1.21	1.21	70.36	0.18
Series F							
Dec. 31, 2017	14.59	129 500	8 878	0.77	0.77	34.20	0.07
Dec. 31, 2016	14.15	136 240	9 630	0.85 ⁴	0.85	42.91	0.08
Dec. 31, 2015	11.91	91 336	7 667	0.94	0.94	43.12	0.09
Dec. 31, 2014	13.49	98 164	7 277	0.94	0.94	72.04	0.13
Dec. 31, 2013	13.03	48 817	3 747	0.95	0.95	70.36	0.18
Series FT5							
Dec. 31, 2017⁵	14.77	1	—	0.79	0.79	34.20	0.07
Series O							
Dec. 31, 2017	14.46	758 639	52 479	0.02	0.02	34.20	0.07
Dec. 31, 2016	14.02	727 850	51 899	0.02	0.02	42.91	0.08
Dec. 31, 2015	11.80	591 951	50 166	0.04	0.04	43.12	0.09
Dec. 31, 2014	13.38	427 618	31 953	0.06	0.06	72.04	0.13
Dec. 31, 2013	12.99	373 388	28 737	0.06	0.06	70.36	0.18

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ Effective June 30, 2016, the management fees were changed in respect of Series A, Advisor Series, Series D and Series F units of the Fund. If the changes to the management fees would have been in effect throughout 2016, the adjusted MER for each series of the Fund would be: Series A – 1.87%, Advisor Series – 1.87%, Series D – 1.02% and Series F – 0.77%.

⁵ From August 28, 2017.

FINANCIAL HIGHLIGHTS (cont.)
Management Fees

RBC GAM is the manager and portfolio manager of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series A	1.60%	63%	37%
Advisor Series	1.60%	63%	37%
Series T5	1.60%	63%	37%
Series D	0.85%	29%	71%
Series F	0.60%	—	100%
Series FT5	0.60%	—	100%

Series O – no management fees are paid by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

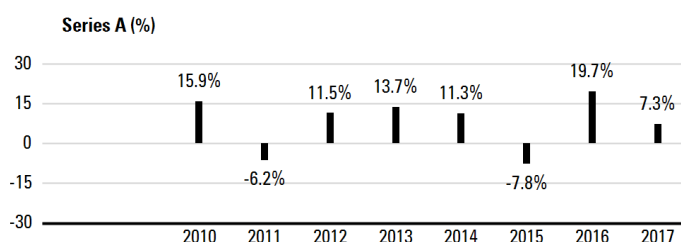
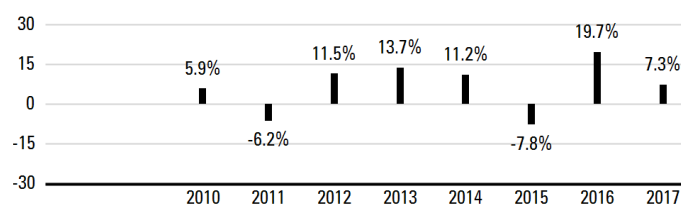
* Includes all costs related to management, investment advisory services, general administration and profit.

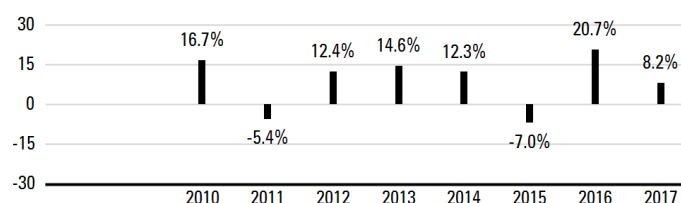
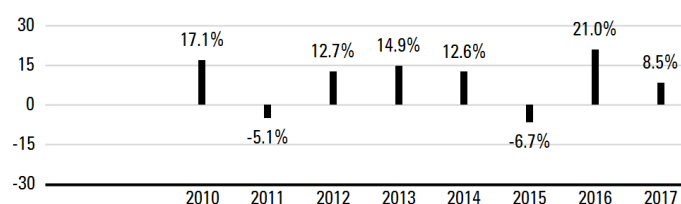
PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

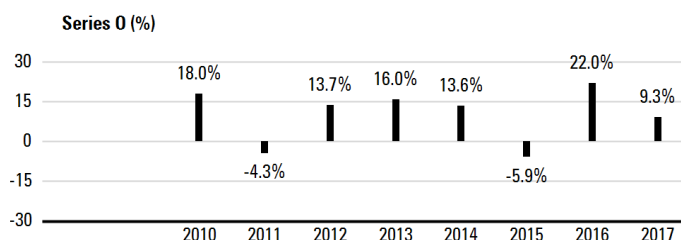
Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.


Advisor Series (%)

Series T5 (%)

Series D (%)

Series F (%)

Series FT5 (%)


PAST PERFORMANCE (cont.)



Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2017, compared with the following benchmark:

S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	7.3	5.8	8.4	—	7.8
Benchmark	9.1	6.6	8.6	—	7.2
Advisor Series	7.3	5.8	8.4	—	7.3
Benchmark	9.1	6.6	8.6	—	6.6
Series T5	—	—	—	—	6.6
Benchmark	—	—	—	—	8.9
Series D	8.2	6.7	9.4	—	8.6
Benchmark	9.1	6.6	8.6	—	7.2
Series F	8.5	7.0	9.7	—	8.9
Benchmark	9.1	6.6	8.6	—	7.2
Series FT5	—	—	—	—	8.3
Benchmark	—	—	—	—	8.9
Series O	9.3	7.9	10.6	—	9.9
Benchmark	9.1	6.6	8.6	—	7.2

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Series T5 and Series FT5 units have been available for sale to unitholders since August 2017, Advisor Series units since October 2010, and Series A, Series D, Series F and Series O units since December 2009.

Inception dates are not provided for series that have been in existence for more than 10 years.

All outstanding Series H units were re-designated as Series C units and then immediately renamed Series A units effective June 30, 2016. All outstanding Series I units were re-designated as Series F units effective June 30, 2016.

INDEX DESCRIPTION

S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2017

Investment Mix

	% of Net Asset Value
Financials	38.2
Energy	21.1
Industrials	9.6
Materials	8.6
Telecommunication Services	4.3
Consumer Staples	4.2
Consumer Discretionary	3.7
Real Estate	2.9
Utilities	2.2
Information Technology	1.9
Health Care	0.6
Cash/Other	2.7

Top 25 Holdings

	% of Net Asset Value
Royal Bank of Canada	7.1
Toronto-Dominion Bank	6.2
Bank of Nova Scotia	4.9
Enbridge Inc.	3.5
Bank of Montreal	3.5
Suncor Energy Inc.	3.5
Canadian National Railway Co.	3.2
Canadian Natural Resources Ltd.	3.1
Brookfield Asset Management Inc., Class A	3.0
TransCanada Corp.	2.7
Manulife Financial Corporation	2.6
Cash & Cash Equivalents	2.6
Canadian Imperial Bank of Commerce	2.5
Canadian Pacific Railway Ltd.	2.2
Sun Life Financial Inc.	2.0
BCE Inc.	1.9
Waste Connections Inc.	1.7
Rogers Communications Inc., Class B	1.6
Loblaw Companies Ltd.	1.4
Fairfax Financial Holdings Ltd.	1.4
Potash Corporation of Saskatchewan Inc.	1.3
Alimentation Couche-Tard Inc.	1.3
Agrium Inc.	1.2
Teck Resources Ltd., Class B	1.2
Pembina Pipeline Corp.	1.2
Top 25 Holdings	66.8

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.rbcgam.com/funds, or by emailing us at info@phn.com.

CANADIAN EQUITY FUND

PHILLIPS, HAGER & NORTH
CANADIAN EQUITY UNDERLYING FUND

December 31, 2017

Portfolio Manager RBC Global Asset Management Inc. ("RBC GAM")

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 8, 2018.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank").

PHILLIPS, HAGER & NORTH
CANADIAN EQUITY UNDERLYING FUND
MANAGEMENT DISCUSSION OF FUND PERFORMANCE
Investment Objective and Strategies

The Fund seeks to provide significant long-term capital growth by investing primarily in a well-diversified portfolio of Canadian common stocks. The Fund is expected to be used primarily as an underlying fund for other mutual funds but may also be sold directly to other investors.

To achieve the Fund's investment objectives the portfolio manager will focus primarily on larger-capitalization stocks. The portfolio manager generally invests in growth companies that have superior management, industry leadership, a high level of profitability compared with competitors, a sound financial position, strong earnings growth and a reasonable valuation.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

Effective June 30, 2017, RBC GAM adopted the risk classification methodology under National Instrument 81-102 – *Investment Funds* (the "new risk classification methodology"). Pursuant to the new risk classification methodology, certain funds' risk ratings were changed. RBC GAM reviews each fund's risk rating on an annual basis or if there has been a material change to a fund's investment objectives or investment strategies. Any changes to a fund's risk rating are the result of RBC GAM's annual review and the adoption of the new risk classification methodology.

There were no changes to the Fund's risk rating during the reporting period.

Results of Operations

The Fund's net asset value rose to \$2.7 billion as of December 31, 2017, from \$2.5 billion at the end of 2016. The increase was due to investment returns.

Over the past year, the Fund's Series O units gained 6.6%, which underperformed the 9.1% rise in the benchmark. The Fund's return is after the deduction of expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

The Canadian equity market, as measured by the S&P/TSX Capped Composite Index, surged to record highs to close out 2017. Ten out of the 11 industry sectors posted gains during the year, with Energy being the only one to decline. A rise in oil prices in the latter half of 2017 muted some of the sector's negative impact. The Financials,

Consumer Discretionary and Industrials sectors contributed the most to index returns after a slow start to the year, offsetting mid-year worries related to surging home prices and consumer debt.

In the Financials sector, a position in Home Capital Group held back the Fund's returns over the year. The Energy sector was the biggest detractor from performance, with positions in Cenovus Energy and Crescent Point Energy having a large negative impact during the period.

In the Consumer Discretionary sector, the Fund's overweight position in Dollarama added significantly to returns. The Fund's holdings in the Utilities sector aided returns, led by holdings in Brookfield Infrastructure Partners and Fortis.

Recent Developments

Economic momentum in developed and emerging markets has shown little sign of slowing, and low inflation and accommodative monetary policies remain supportive. Synchronized global growth continues to be led by the U.S., whose central bank will likely continue with interest-rate hikes in 2018. The recently enacted U.S. tax cuts have the potential to maintain corporate earnings momentum. A steady and sustained expansion continues globally but political tensions remain a risk on the horizon.

Related-Party Transactions
Manager and Portfolio Manager

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank and is the manager and principal portfolio manager of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund. Both the management fee and fixed administration fee are calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund.

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies. The Fund also maintains bank accounts and overdraft provisions with Royal Bank for which Royal Bank may earn a fee. Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

PHILLIPS, HAGER & NORTH
CANADIAN EQUITY UNDERLYING FUND
Distributor

RBC GAM is the principal distributor of the Fund.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and holds title to the Fund's property on behalf of unitholders. RBC IS is the custodian of the Fund and holds the assets of the Fund.

RBC IS earns a fee as the trustee and custodian, which is paid by the manager from the fixed administration fee paid by the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund. The registrars earn a fee, which is paid by the manager from the fixed administration fee paid by the Fund.

Brokers and Dealers

The Fund has established standard brokerage and dealing agreements at market rates with related parties. These related-party commissions were \$78,000 (2016 – \$194,000), or 5% (2016 – 9%) of the total transaction costs paid for this Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Independent Review Committee with respect to one or more of the following transactions:

Related-Party Trading Activities

- (a) trades in securities of Royal Bank;
- (b) investments in the securities of issuers for which a related-party dealer acted as an underwriter during the distribution of such securities and the 60-day period following the conclusion of such distribution of the underwritten securities to the public;
- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal; and

Inter-Fund Trading

- (d) purchases or sales of securities of an issuer from or to another investment fund or managed account managed by RBC GAM.

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

PHILLIPS, HAGER & NORTH
CANADIAN EQUITY UNDERLYING FUND
FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²					Net Assets End of Year/Period
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital	Total	
Series O												
Dec. 31, 2017	11.76	0.31	—	0.11	0.36	0.78	(0.01)	(0.30)	(0.10)	—	(0.41)	12.13
Dec. 31, 2016	10.00	0.31	—	0.27	1.79	2.37	(0.02)	(0.32)	(0.28)	—	(0.62)	11.76
Dec. 31, 2015	11.06	0.31	—	(0.05)	(1.00)	(0.74)	—	(0.31)	—	—	(0.31)	10.00
Dec. 31, 2014	11.11	0.30	—	1.02	0.13	1.45	—	(0.32)	(1.09)	—	(1.41)	11.06
Dec. 31, 2013	9.49	0.27	—	0.26	2.10	2.63	—	(0.17)	(0.10)	—	(0.27)	11.10

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series O							
Dec. 31, 2017	12.13	2 699 066	222 476	0.02	0.02	25.66	0.06
Dec. 31, 2016	11.76	2 507 856	213 190	0.02	0.02	40.13	0.09
Dec. 31, 2015	10.00	2 387 979	238 883	0.02	0.02	29.58	0.07
Dec. 31, 2014	11.06	2 535 912	229 262	0.02	0.02	48.42	0.10
Dec. 31, 2013	11.11	2 380 463	214 294	0.02	0.02	37.75	0.12

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

Management Fees

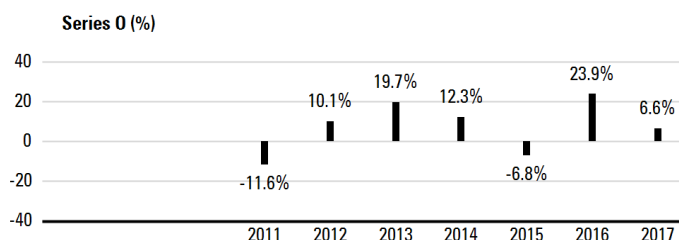
RBC GAM is the manager and portfolio manager of the Fund. No management fees are paid by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

PHILLIPS, HAGER & NORTH
CANADIAN EQUITY UNDERLYING FUND
PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.


Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2017, compared with the following benchmark:

S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series 0	6.6	7.1	10.6	—	7.1
Benchmark	9.1	6.6	8.6	—	5.7

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Series 0 units have been available for sale to unitholders since January 2011.

Inception dates are not provided for series that have been in existence for more than 10 years.

INDEX DESCRIPTION

S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2017

Investment Mix

	% of Net Asset Value
Financials	37.3
Energy	22.4
Industrials	9.0
Consumer Discretionary	8.9
Materials	8.1
Information Technology	4.7
Consumer Staples	3.2
Real Estate	2.6
Utilities	1.5
Telecommunication Services	0.9
Cash/Other	1.4

Top 25 Holdings

	% of Net Asset Value
Toronto-Dominion Bank	7.6
Royal Bank of Canada	7.0
Enbridge Inc.	5.3
Bank of Nova Scotia	5.1
Brookfield Asset Management Inc., Class A	3.9
Manulife Financial Corporation	3.4
TransCanada Corp.	2.7
Canadian National Railway Co.	2.6
Canadian Imperial Bank of Commerce	2.4
Alimentation Couche-Tard Inc.	2.3
Canadian Natural Resources Ltd.	2.2
Bank of Montreal	2.1
Dollarama Inc.	1.9
CGI Group Inc., Class A	1.8
Waste Connections Inc.	1.8
Suncor Energy Inc.	1.7
Quebecor Inc., Class B	1.6
Encana Corp.	1.6
Open Text Corp.	1.5
Fairfax Financial Holdings Ltd.	1.5
Shaw Communications Inc., Class B	1.5
ARC Resources Ltd.	1.4
Canadian Pacific Railway Ltd.	1.2
Keyera Corp.	1.2
Cash & Cash Equivalents	1.2
Top 25 Holdings	66.5

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.rbcgam.com/funds, or by emailing us at info@phn.com.

CANADIAN EQUITY FUND

PHILLIPS, HAGER & NORTH
CANADIAN EQUITY UNDERLYING FUND II

December 31, 2017

Portfolio Manager *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 8, 2018.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank").

PHILLIPS, HAGER & NORTH
CANADIAN EQUITY UNDERLYING FUND II
MANAGEMENT DISCUSSION OF FUND PERFORMANCE
Investment Objective and Strategies

The Fund seeks to provide long-term capital growth by investing primarily in a well-diversified portfolio of Canadian common stocks.

To achieve the Fund's investment objectives the portfolio manager will focus primarily on stocks with market capitalization greater than \$1 billion. The portfolio manager generally invests in growth companies that have superior management, industry leadership, a high level of profitability compared with competitors, a sound financial position, strong earnings growth and a reasonable valuation.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

Effective June 30, 2017, RBC GAM adopted the risk classification methodology under National Instrument 81-102 – *Investment Funds* (the "new risk classification methodology"). Pursuant to the new risk classification methodology, certain funds' risk ratings were changed. RBC GAM reviews each fund's risk rating on an annual basis or if there has been a material change to a fund's investment objectives or investment strategies. Any changes to a fund's risk rating are the result of RBC GAM's annual review and the adoption of the new risk classification methodology.

There were no changes to the Fund's risk rating during the reporting period.

Results of Operations

The Fund's net asset value rose to \$1.7 billion as of December 31, 2017, from \$1.3 billion at the end of 2016. The increase was due to net inflows.

Over the past year, the Fund's Series O units gained 5.0%, which underperformed the 9.1% rise in the benchmark. The Fund's return is after the deduction of expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

The Canadian equity market, as measured by the S&P/TSX Capped Composite Index, surged to record highs to close out 2017. Ten out of the 11 industry sectors posted gains during the year, with Energy being the only one to decline. A rise in oil prices in the latter half of 2017 muted some of the sector's negative impact. The Financials, Consumer Discretionary and Industrials sectors contributed the most to index returns after a slow start to the year, offsetting mid-year worries related to surging home prices and consumer debt.

In the Financials sector, a position in Home Capital Group held back the Fund's returns over the year. The Energy sector was the biggest detractor from performance, with positions in Cenovus Energy and Crescent Point Energy having a large negative impact during the period.

In the Consumer Discretionary sector, the Fund's overweight position in Dollarama added significantly to returns. The Fund's holdings in the Utilities sector aided returns, led by holdings in Brookfield Infrastructure Partners and Fortis.

Recent Developments

Economic momentum in developed and emerging markets has shown little sign of slowing, and low inflation and accommodative monetary policies remain supportive. Synchronized global growth continues to be led by the U.S., whose central bank will likely continue with interest-rate hikes in 2018. The recently enacted U.S. tax cuts have the potential to maintain corporate earnings momentum. A steady and sustained expansion continues globally but political tensions remain a risk on the horizon.

Related-Party Transactions
Manager and Portfolio Manager

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank and is the manager and principal portfolio manager of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund. Both the management fee and fixed administration fee are calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund.

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies. The Fund also maintains bank accounts and overdraft provisions with Royal Bank for which Royal Bank may earn a fee. Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

Distributor

RBC GAM is the principal distributor of the Fund.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and holds title to the Fund's property on behalf of unitholders. RBC IS is the custodian of the Fund and holds the assets of the Fund.

RBC IS earns a fee as the trustee and custodian, which is paid by the manager from the fixed administration fee paid by the Fund.

PHILLIPS, HAGER & NORTH
CANADIAN EQUITY UNDERLYING FUND II
Registrars

RBC GAM, RBC IS and Royal Bank are the registrars of the Fund and keep records of who owns units of the Fund. The registrars earn a fee, which is paid by the manager from the fixed administration fee paid by the Fund.

Brokers and Dealers

The Fund has established standard brokerage and dealing agreements at market rates with related parties. These related-party commissions were \$129,000 (2016 – \$418,000), or 6% (2016 – 8%) of the total transaction costs paid for this Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Independent Review Committee with respect to one or more of the following transactions:

Related-Party Trading Activities

- (a) trades in securities of Royal Bank;
- (b) investments in the securities of issuers for which a related-party dealer acted as an underwriter during the distribution of such securities and the 60-day period following the conclusion of such distribution of the underwritten securities to the public;
- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal; and

Inter-Fund Trading

- (d) purchases or sales of securities of an issuer from or to another investment fund or managed account managed by RBC GAM.

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

PHILLIPS, HAGER & NORTH
CANADIAN EQUITY UNDERLYING FUND II
FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²					Net Assets End of Year/Period
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital	Total	
Series O												
Dec. 31, 2017	9.70	0.25	—	0.26	0.03	0.54	—	(0.21)	(0.23)	—	(0.44)	9.73
Dec. 31, 2016	8.52	0.27	—	0.33	1.42	2.02	(0.02)	(0.32)	(0.43)	—	(0.77)	9.70
Dec. 31, 2015	9.64	0.29	—	(0.10)	(1.08)	(0.89)	—	(0.15)	(0.21)	—	(0.36)	8.52
Dec. 31, 2014 ³	10.00 [†]	0.10	—	(0.03)	0.18	0.25	—	(0.04)	(0.01)	—	(0.05)	9.64

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From July 2014.

[†] Initial offering net asset value per unit.

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series O							
Dec. 31, 2017	9.73	1 676 509	172 285	0.02	0.02	64.94	0.14
Dec. 31, 2016	9.70	1 339 928	138 170	0.02	0.02	172.58	0.37
Dec. 31, 2015	8.52	1 399 198	164 149	0.02	0.02	171.02	0.47
Dec. 31, 2014 ⁴	9.64	409 071	42 435	0.02	0.02	56.94	0.27

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From July 2014.

Management Fees

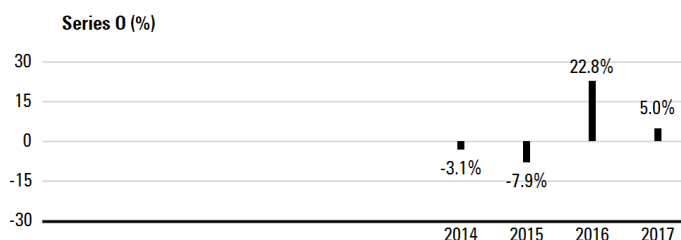
RBC GAM is the manager and portfolio manager of the Fund. No management fees are paid by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

PHILLIPS, HAGER & NORTH
CANADIAN EQUITY UNDERLYING FUND II
PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.


Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2017, compared with the following benchmark:

S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series 0	5.0	5.9	—	—	4.2
Benchmark	9.1	6.6	—	—	4.9

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Series 0 units have been available for sale to unitholders since August 2014.

Inception dates are not provided for series that have been in existence for more than 10 years.

INDEX DESCRIPTION

S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2017

Investment Mix

	% of Net Asset Value
Financials	38.0
Energy	23.7
Materials	8.8
Industrials	8.7
Consumer Discretionary	7.3
Information Technology	4.6
Real Estate	2.9
Consumer Staples	2.6
Utilities	1.4
Telecommunication Services	0.5
Cash/Other	1.5

Top 25 Holdings

	% of Net Asset Value
Toronto-Dominion Bank	7.4
Royal Bank of Canada	6.9
Enbridge Inc.	5.2
Bank of Nova Scotia	5.1
Brookfield Asset Management Inc., Class A	3.9
Manulife Financial Corporation	3.1
TransCanada Corp.	2.8
Alimentation Couche-Tard Inc.	2.6
Canadian National Railway Co.	2.4
Bank of Montreal	2.4
Canadian Imperial Bank of Commerce	2.3
Stantec Inc.	2.2
Canadian Pacific Railway Ltd.	2.1
Keyera Corp.	2.1
Quebecor Inc., Class B	2.1
CGI Group Inc., Class A	2.1
Fairfax Financial Holdings Ltd.	2.0
Suncor Energy Inc.	2.0
Shaw Communications Inc., Class B	2.0
Encana Corp.	2.0
Canadian Natural Resources Ltd.	1.9
Waste Connections Inc.	1.9
Open Text Corp.	1.9
Dollarama Inc.	1.7
Seven Generations Energy Ltd.	1.6
Top 25 Holdings	71.7

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.rbcgam.com/funds, or by emailing us at info@phn.com.

CANADIAN EQUITY FUND

PHILLIPS, HAGER & NORTH
CANADIAN GROWTH FUND

 December 31, 2017

Portfolio Manager *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 8, 2018.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE**Investment Objective and Strategies**

The Fund seeks to provide investors with long-term capital growth by investing primarily in a well-diversified portfolio of Canadian common stocks. The Fund also may invest a portion of its assets in U.S. and international securities in order to achieve greater exposure to industries that are not well represented in Canada. To achieve the Fund's investment objective, the portfolio manager invests primarily in companies that they believe, among other things, have a superior management team, a leadership position in their industry, a high level of profitability compared to their peers, and strong earnings potential.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

Effective June 30, 2017, RBC GAM adopted the risk classification methodology under National Instrument 81-102 – *Investment Funds* (the "new risk classification methodology"). Pursuant to the new risk classification methodology, certain funds' risk ratings were changed. RBC GAM reviews each fund's risk rating on an annual basis or if there has been a material change to a fund's investment objectives or investment strategies. Any changes to a fund's risk rating are the result of RBC GAM's annual review and the adoption of the new risk classification methodology.

There were no changes to the Fund's risk rating during the reporting period.

Results of Operations

The Fund's net asset value rose to \$653 million as of December 31, 2017, from \$576 million at the end of 2016. The change was due to a combination of investment returns and net inflows.

Over the past year, the Fund's Series O units gained 7.8%, which underperformed the 9.1% rise in the benchmark. The Fund's return is after the deduction of expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

Global equity markets rallied across the board, with many recording record highs. The strength was supported by a global economic expansion and renewed corporate profit growth. The S&P/TSX Composite Index was one of the worst-performing developed-market benchmarks given continued weakness in the Energy sector, a

stronger Canadian dollar, uncertainty about the future of the North American Free Trade Agreement and concern about the impact of a slowing housing market.

The best relative-performing sectors in the Fund were Consumer Discretionary, Consumer Staples and Information Technology. Energy, Health Care and Materials underperformed relative to the benchmark.

The Fund's performance during the year was driven by investments including Air Canada, Shopify and Spin Master. Air Canada continues to outperform expectations, as it successfully executes a strategy that comprises free-cash flow generation, balance-sheet deleveraging and the launch of a new loyalty program. Shopify offers cloud-based programs for small and medium-sized businesses. Spin Master, a toy manufacturer, benefited from a robust product pipeline, rising international sales and the possibility that it will be a takeover target. Notably, the company reached an agreement with Alibaba to help expand Spin Master's reach in China.

The Fund's performance was negatively affected by a position in Tahoe Resources and a decision to not invest in Dollarama, which performed well during the period.

Stocks added to the portfolio during the period included Brookfield Infrastructure Partners, Jamieson Wellness and Pure Industrial REIT. Positions in Dominion Diamond, Milestone Apartments and Norbord were eliminated.

Recent Developments

The recent rally has pushed equities closer to fair value, and without support from rising valuations, continued corporate profit growth will be needed to fuel further gains. Corporate tax cuts in the U.S. are expected to provide an additional boost to profits, but a portion of the anticipated changes has been priced in.

The U.S. Federal Reserve raised short-term interest rates three times in 2017, and has signalled that it intends to hike a further three times in 2018. The Bank of Canada hiked rates twice in 2017, but has reiterated its caution on rate hikes going forward given the domestic economic headwinds.

Related-Party Transactions***Manager and Portfolio Manager***

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank and is the manager and principal portfolio manager of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund. Both the management fee and fixed administration fee are calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund.

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies. The Fund also maintains bank accounts and overdraft provisions with Royal Bank for which Royal Bank may earn a fee. Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series A, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and holds title to the Fund's property on behalf of unitholders. RBC IS is the custodian of the Fund and holds the assets of the Fund.

RBC IS earns a fee as the trustee and custodian, which is paid by the manager from the fixed administration fee paid by the Fund.

Registrars

RBC GAM, RBC IS and Royal Bank are the registrars of the Fund and keep records of who owns units of the Fund. The registrars earn a fee, which is paid by the manager from the fixed administration fee paid by the Fund.

Brokers and Dealers

The Fund has established standard brokerage and dealing agreements at market rates with related parties. These related-party commissions were \$53,000 (2016 – \$24,000), or 23% (2016 – 7%) of the total transaction costs paid for this Fund during this period.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Independent Review Committee with respect to one or more of the following transactions:

Related-Party Trading Activities

- (a) trades in securities of Royal Bank;
- (b) investments in the securities of issuers for which a related-party dealer acted as an underwriter during the distribution of such securities and the 60-day period following the conclusion of such distribution of the underwritten securities to the public;
- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal; and

Inter-Fund Trading

- (d) purchases or sales of securities of an issuer from or to another investment fund or managed account managed by RBC GAM.

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²					Net Assets End of Year/Period
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series A												
Dec. 31, 2017	36.31	0.99	(0.68)	0.67	1.15	2.13	—	(0.22)	(0.10)	—	(0.32)	38.13
Dec. 31, 2016	30.93	0.99	(0.63)	0.72	4.39	5.47	—	(0.33)	—	—	(0.33)	36.31
Dec. 31, 2015	33.47	0.91	(0.67)	(0.25)	(2.54)	(2.55)	—	(0.14)	—	—	(0.14)	30.93
Dec. 31, 2014	31.23	0.87	(0.68)	1.79	0.86	2.84	—	(0.24)	—	—	(0.24)	33.47
Dec. 31, 2013	27.77	0.81	(0.58)	0.17	3.29	3.69	—	(0.17)	—	—	(0.17)	31.21
Advisor Series												
Dec. 31, 2017	36.31	1.01	(0.67)	0.68	(0.09)	0.93	—	(0.22)	(0.10)	—	(0.32)	38.14
Dec. 31, 2016	30.94	0.99	(0.64)	0.72	4.66	5.73	—	(0.33)	—	—	(0.33)	36.31
Dec. 31, 2015	33.47	0.91	(0.67)	(0.25)	(2.52)	(2.53)	—	(0.14)	—	—	(0.14)	30.94
Dec. 31, 2014	31.22	0.87	(0.68)	1.79	0.86	2.84	—	(0.24)	—	—	(0.24)	33.47
Dec. 31, 2013	27.77	0.76	(0.59)	0.16	3.07	3.40	—	(0.17)	—	—	(0.17)	31.20
Series D												
Dec. 31, 2017	35.87	0.99	(0.38)	0.66	1.14	2.41	—	(0.52)	(0.10)	—	(0.62)	37.68
Dec. 31, 2016	30.57	0.98	(0.36)	0.71	4.54	5.87	—	(0.62)	—	—	(0.62)	35.87
Dec. 31, 2015	33.07	0.90	(0.39)	(0.25)	(2.52)	(2.26)	—	(0.39)	—	—	(0.39)	30.57
Dec. 31, 2014	30.83	0.86	(0.40)	1.77	0.85	3.08	—	(0.49)	—	—	(0.49)	33.07
Dec. 31, 2013	27.41	0.81	(0.34)	0.17	3.26	3.90	—	(0.41)	—	—	(0.41)	30.81
Series F												
Dec. 31, 2017	36.10	0.99	(0.28)	0.67	1.51	2.89	(0.01)	(0.63)	(0.10)	—	(0.74)	37.91
Dec. 31, 2016	30.76	0.99	(0.27)	0.72	5.31	6.75	—	(0.73)	—	—	(0.73)	36.10
Dec. 31, 2015	33.28	0.91	(0.30)	(0.25)	(2.53)	(2.17)	—	(0.49)	—	—	(0.49)	30.76
Dec. 31, 2014	31.03	0.87	(0.30)	1.78	0.86	3.21	—	(0.59)	—	—	(0.59)	33.28
Dec. 31, 2013	27.59	0.81	(0.26)	0.17	3.29	4.01	—	(0.50)	—	—	(0.50)	31.00
Series O												
Dec. 31, 2017	36.81	1.02	(0.02)	0.68	1.26	2.94	(0.01)	(0.92)	(0.10)	—	(1.03)	38.65
Dec. 31, 2016	31.35	1.01	(0.02)	0.73	4.81	6.53	—	(1.02)	—	—	(1.02)	36.81
Dec. 31, 2015	33.93	0.93	(0.02)	(0.25)	(2.58)	(1.92)	—	(0.78)	—	—	(0.78)	31.35
Dec. 31, 2014	31.64	0.89	(0.02)	1.82	0.88	3.57	—	(0.89)	—	—	(0.89)	33.93
Dec. 31, 2013	28.13	0.83	(0.01)	0.17	3.36	4.35	—	(0.78)	—	—	(0.78)	31.61

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series A							
Dec. 31, 2017	38.13	2 324	61	1.83	1.83	16.59	0.04
Dec. 31, 2016	36.31	2 205	61	1.92 ⁴	1.92	27.48	0.06
Dec. 31, 2015	30.93	2 499	81	2.00	2.00	30.74	0.07
Dec. 31, 2014	33.47	3 037	91	2.01	2.01	41.63	0.08
Dec. 31, 2013	31.23	2 801	90	2.01	2.01	44.12	0.07
Advisor Series							
Dec. 31, 2017	38.14	63	2	1.82	1.82	16.59	0.04
Dec. 31, 2016	36.31	170	5	1.91 ⁴	1.91	27.48	0.06
Dec. 31, 2015	30.94	186	6	2.00	2.00	30.74	0.07
Dec. 31, 2014	33.47	155	5	2.01	2.01	41.63	0.08
Dec. 31, 2013	31.22	147	5	2.01	2.01	44.12	0.07
Series D							
Dec. 31, 2017	37.68	117 612	3 122	1.03	1.03	16.59	0.04
Dec. 31, 2016	35.87	119 163	3 322	1.10 ⁴	1.10	27.48	0.06
Dec. 31, 2015	30.57	112 805	3 691	1.19	1.19	30.74	0.07
Dec. 31, 2014	33.07	134 270	4 061	1.19	1.19	41.63	0.08
Dec. 31, 2013	30.83	138 825	4 503	1.19	1.19	44.12	0.07
Series F							
Dec. 31, 2017	37.91	2 059	54	0.74	0.74	16.59	0.04
Dec. 31, 2016	36.10	1 594	44	0.81 ⁴	0.81	27.48	0.06
Dec. 31, 2015	30.76	551	18	0.90	0.90	30.74	0.07
Dec. 31, 2014	33.28	437	13	0.89	0.89	41.63	0.08
Dec. 31, 2013	31.03	498	16	0.91	0.91	44.12	0.07
Series O							
Dec. 31, 2017	38.65	531 113	13 741	0.04	0.04	16.59	0.04
Dec. 31, 2016	36.81	453 111	12 310	0.04	0.04	27.48	0.06
Dec. 31, 2015	31.35	393 664	12 555	0.04	0.04	30.74	0.07
Dec. 31, 2014	33.93	314 503	9 268	0.04	0.04	41.63	0.08
Dec. 31, 2013	31.64	301 342	9 526	0.04	0.04	44.12	0.07

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ Effective June 30, 2016, the management fees were changed in respect of Series A, Advisor Series, Series D and Series F units of the Fund. If the changes to the management fees would have been in effect throughout 2016, the adjusted MER for each series of the Fund would be: Series A – 1.83%, Advisor Series – 1.83%, Series D – 1.02% and Series F – 0.74%.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio manager of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series A	1.60%	63%	37%
Advisor Series	1.60%	63%	37%
Series D	0.85%	29%	71%
Series F	0.60%	—	100%

Series O – no management fees are paid by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

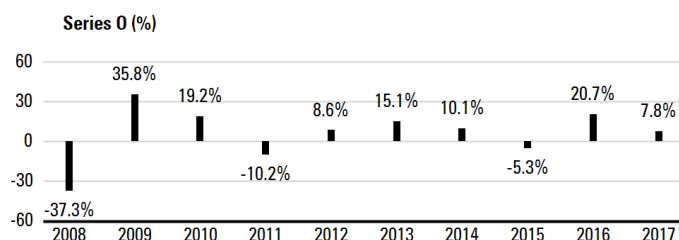
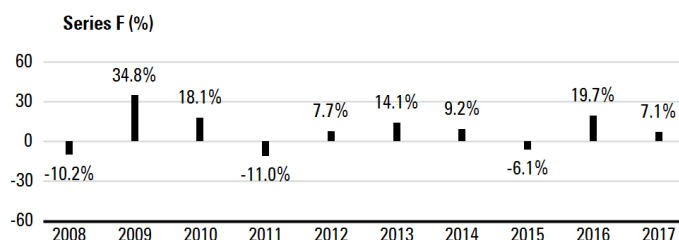
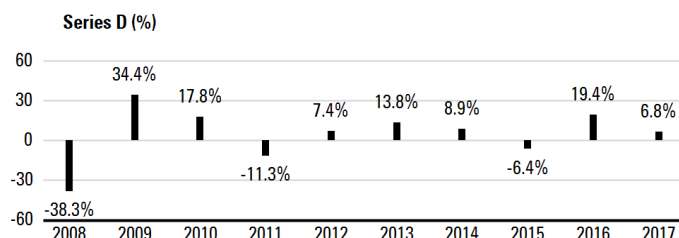
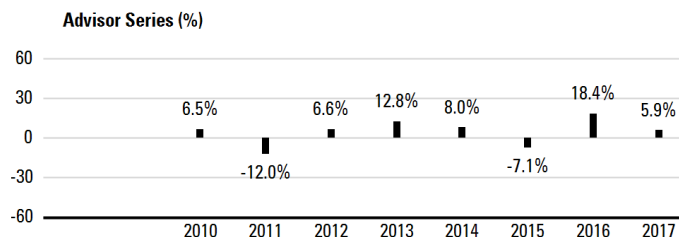
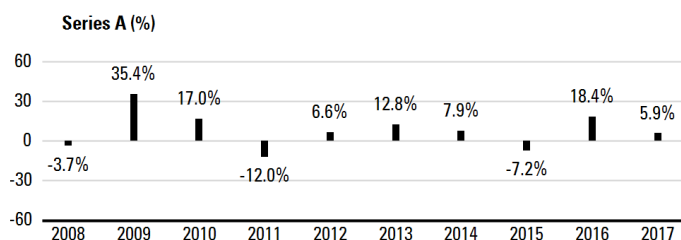
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



PAST PERFORMANCE (cont.)**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2017, compared with the following benchmark:

S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	5.9	5.2	7.2	—	8.1
Benchmark	9.1	6.6	8.6	—	10.0
Advisor Series	5.9	5.2	7.3	—	5.0
Benchmark	9.1	6.6	8.6	—	6.6
Series D	6.8	6.1	8.1	3.2	—
Benchmark	9.1	6.6	8.6	4.7	—
Series F	7.1	6.4	8.4	—	8.2
Benchmark	9.1	6.6	8.6	—	8.9
Series O	7.8	7.2	9.3	4.4	—
Benchmark	9.1	6.6	8.6	4.7	—

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Advisor Series units have been available for sale to unitholders since October 2010, Series A units since November 2008, and Series F units since October 2008.

Inception dates are not provided for series that have been in existence for more than 10 years.

All outstanding Series C units were renamed Series A units effective June 30, 2016. Series D was known as Series A prior to November 17, 2008.

INDEX DESCRIPTION

S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2017

Investment Mix

	% of Net Asset Value
Financials	34.2
Energy	20.9
Materials	9.7
Industrials	8.4
Consumer Discretionary	6.1
Consumer Staples	4.1
Information Technology	3.8
Telecommunication Services	3.3
Real Estate	3.1
Utilities	3.0
Health Care	0.5
Cash/Other	2.9

Top 25 Holdings

	% of Net Asset Value
Royal Bank of Canada	7.3
Toronto-Dominion Bank	6.2
Bank of Nova Scotia	5.0
Canadian National Railway Co.	4.7
Suncor Energy Inc.	3.6
Enbridge Inc.	3.2
Bank of Montreal	3.1
Cash & Cash Equivalents	2.7
Canadian Imperial Bank of Commerce	2.6
TransCanada Corp.	2.5
Canadian Natural Resources Ltd.	2.4
Manulife Financial Corporation	2.3
Brookfield Asset Management Inc., Class A	2.1
BCE Inc.	2.0
Magna International Inc., Class A	1.7
Power Corporation of Canada	1.4
Canadian Pacific Railway Ltd.	1.3
Alimentation Couche-Tard Inc.	1.3
Sun Life Financial Inc.	1.2
Potash Corporation of Saskatchewan Inc.	1.2
Waste Connections Inc.	1.2
Loblaw Companies Ltd.	1.1
Rogers Communications Inc., Class B	1.1
CGI Group Inc., Class A	1.1
Pembina Pipeline Corp.	0.9
Top 25 Holdings	63.2

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.rbcgam.com/funds, or by emailing us at info@phn.com.

CANADIAN EQUITY FUND

PHILLIPS, HAGER & NORTH
CANADIAN INCOME FUND

December 31, 2017

Portfolio Manager RBC Global Asset Management Inc. ("RBC GAM")

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 8, 2018.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to provide investors with capital preservation and a reasonably consistent level of income. To achieve the Fund's investment objective, the portfolio manager invests primarily in a well-diversified portfolio of dividend-paying Canadian common shares, high-quality units of Canadian income trusts or real estate investment trusts ("REITs"), and other income-producing securities including bonds of the Canadian government, provincial governments and quality Canadian corporations and high-quality money market securities including asset backed commercial paper. The Fund's assets are concentrated in mid- and large-capitalization securities and it does not invest in businesses with excessive financial leverage.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

Effective June 30, 2017, RBC GAM adopted the risk classification methodology under National Instrument 81-102 – *Investment Funds* (the "new risk classification methodology"). Pursuant to the new risk classification methodology, certain funds' risk ratings were changed. RBC GAM reviews each fund's risk rating on an annual basis or if there has been a material change to a fund's investment objectives or investment strategies. Any changes to a fund's risk rating are the result of RBC GAM's annual review and the adoption of the new risk classification methodology.

There were no changes to the Fund's risk rating during the reporting period.

Results of Operations

The Fund's net asset value fell to \$933 million as of December 31, 2017, from \$936 million at the end of 2016. The decrease was due to investment returns, partially offset by net redemptions.

Over the past year, the Fund's Series O units gained 7.6%, which underperformed the 9.1% rise in the benchmark. The Fund's return is after the deduction of expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

The Canadian equity market, as measured by the S&P/TSX Capped Composite Index, surged to record highs to close out 2017. Ten out of the 11 industry sectors posted gains during the year, with Energy being the only one to decline. A rise in oil prices in the latter half of 2017 muted some of the sector's negative impact. The Financials,

Consumer Discretionary and Industrials sectors contributed the most to index returns after a slow start to the year, offsetting mid-year worries related to surging home prices and consumer debt.

In the Consumer Discretionary sector, a position in Cineplex held back the Fund's returns over the year. The Energy sector was the biggest detractor from performance, with positions in Cenovus Energy and Crescent Point Energy having a large negative impact during the period.

In the Consumer Discretionary sector, the Fund's overweight position in Dollarama added significantly to returns. Positions in the Financials sector also aided performance, with contributions from Bank of Montreal, Royal Bank of Canada and Toronto-Dominion Bank.

Portfolio turnover is normally high for this Fund, as the portfolio manager attempts to generate better returns through active sector and stock selection.

Recent Developments

Economic momentum in developed and emerging markets has shown little sign of slowing, and low inflation and accommodative monetary policies remain supportive. Synchronized global growth continues to be led by the U.S., whose central bank will likely continue with interest-rate hikes in 2018. The recently enacted U.S. tax cuts have the potential to maintain corporate earnings momentum. A steady and sustained expansion continues globally but political tensions remain a risk on the horizon.

Related-Party Transactions

Manager and Portfolio Manager

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank and is the manager and principal portfolio manager of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund. Both the management fee and fixed administration fee are calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund.

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies. The Fund also maintains bank accounts and overdraft provisions with Royal Bank for which Royal Bank may earn a fee. Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series A, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and holds title to the Fund's property on behalf of unitholders. RBC IS is the custodian of the Fund and holds the assets of the Fund.

RBC IS earns a fee as the trustee and custodian, which is paid by the manager from the fixed administration fee paid by the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund. The registrars earn a fee, which is paid by the manager from the fixed administration fee paid by the Fund.

Brokers and Dealers

The Fund has established standard brokerage and dealing agreements at market rates with related parties. These related-party commissions were \$107,000 (2016 – \$237,000), or 7% (2016 – 8%) of the total transaction costs paid for this Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Independent Review Committee with respect to one or more of the following transactions:

Related-Party Trading Activities

- (a) trades in securities of Royal Bank;
- (b) investments in the securities of issuers for which a related-party dealer acted as an underwriter during the distribution of such securities and the 60-day period following the conclusion of such distribution of the underwritten securities to the public;
- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal; and

Inter-Fund Trading

- (d) purchases or sales of securities of an issuer from or to another investment fund or managed account managed by RBC GAM.

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²					Net Assets End of Year/Period
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital	Total	
Series A												
Dec. 31, 2017	15.61	0.45	(0.29)	1.03	(0.34)	0.85	—	(0.14)	(0.68)	—	(0.82)	15.67
Dec. 31, 2016	13.05	0.45	(0.27)	0.33	2.15	2.66	—	(0.21)	—	—	(0.21)	15.61
Dec. 31, 2015	14.35	0.49	(0.28)	(0.68)	(0.76)	(1.23)	—	(0.09)	—	—	(0.09)	13.05
Dec. 31, 2014	13.52	0.61	(0.30)	1.17	(0.88)	0.60	—	(0.11)	(0.01)	—	(0.12)	14.35
Dec. 31, 2013	11.80	0.40	(0.25)	1.11	0.56	1.82	—	(0.11)	—	—	(0.11)	13.51
Advisor Series												
Dec. 31, 2017	15.61	0.45	(0.29)	1.03	(0.34)	0.85	—	(0.15)	(0.68)	—	(0.83)	15.66
Dec. 31, 2016	13.05	0.45	(0.28)	0.33	2.23	2.73	—	(0.21)	—	—	(0.21)	15.61
Dec. 31, 2015	14.35	0.49	(0.28)	(0.68)	(0.76)	(1.23)	—	(0.09)	—	—	(0.09)	13.05
Dec. 31, 2014	13.52	0.61	(0.30)	1.16	(0.87)	0.60	—	(0.11)	(0.01)	—	(0.12)	14.35
Dec. 31, 2013	11.80	0.39	(0.26)	1.09	0.55	1.77	—	(0.11)	—	—	(0.11)	13.51
Series D												
Dec. 31, 2017	15.59	0.45	(0.16)	1.03	(0.33)	0.99	—	(0.29)	(0.68)	—	(0.97)	15.63
Dec. 31, 2016	13.04	0.45	(0.16)	0.33	2.23	2.85	(0.01)	(0.33)	—	—	(0.34)	15.59
Dec. 31, 2015	14.31	0.49	(0.17)	(0.68)	(0.76)	(1.12)	—	(0.17)	—	—	(0.17)	13.04
Dec. 31, 2014	13.47	0.62	(0.17)	1.18	(0.88)	0.75	—	(0.22)	(0.01)	—	(0.23)	14.31
Dec. 31, 2013	11.76	0.40	(0.15)	1.11	0.56	1.92	—	(0.22)	—	—	(0.22)	13.46
Series F												
Dec. 31, 2017	15.60	0.45	(0.12)	1.03	(0.16)	1.20	—	(0.35)	(0.68)	—	(1.03)	15.62
Dec. 31, 2016	13.06	0.45	(0.12)	0.33	1.95	2.61	(0.01)	(0.39)	—	—	(0.40)	15.60
Dec. 31, 2015	14.34	0.48	(0.13)	(0.67)	(0.75)	(1.07)	—	(0.21)	—	—	(0.21)	13.06
Dec. 31, 2014	13.52	0.60	(0.14)	1.13	(0.85)	0.74	—	(0.28)	(0.01)	—	(0.29)	14.34
Dec. 31, 2013	11.82	0.40	(0.12)	1.11	0.56	1.95	—	(0.28)	—	—	(0.28)	13.51
Series O												
Dec. 31, 2017	15.45	0.45	(0.01)	1.02	(0.31)	1.15	—	(0.44)	(0.68)	—	(1.12)	15.49
Dec. 31, 2016	12.91	0.44	(0.01)	0.33	2.20	2.96	(0.01)	(0.46)	—	—	(0.47)	15.45
Dec. 31, 2015	14.30	0.48	(0.01)	(0.67)	(0.75)	(0.95)	(0.01)	(0.44)	—	—	(0.45)	12.91
Dec. 31, 2014	13.42	0.38	(0.01)	0.72	(0.54)	0.55	—	(0.35)	(0.01)	—	(0.36)	14.30
Dec. 31, 2013	11.71	0.40	(0.01)	1.10	0.56	2.05	—	(0.35)	—	—	(0.35)	13.42

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series A							
Dec. 31, 2017	15.67	4 019	256	1.86	1.86	97.63	0.17
Dec. 31, 2016	15.61	4 698	301	1.94 ⁴	1.94	146.47	0.33
Dec. 31, 2015	13.05	4 880	374	2.03	2.03	207.29	0.48
Dec. 31, 2014	14.35	6 152	429	2.03	2.03	169.49	0.46
Dec. 31, 2013	13.52	5 619	416	2.03	2.03	187.07	0.53
Advisor Series							
Dec. 31, 2017	15.66	944	60	1.86	1.86	97.63	0.17
Dec. 31, 2016	15.61	1 049	67	1.94 ⁴	1.94	146.47	0.33
Dec. 31, 2015	13.05	939	72	2.03	2.03	207.29	0.48
Dec. 31, 2014	14.35	1 334	93	2.03	2.03	169.49	0.46
Dec. 31, 2013	13.52	1 286	95	2.03	2.03	187.07	0.53
Series D							
Dec. 31, 2017	15.63	61 059	3 906	1.03	1.03	97.63	0.17
Dec. 31, 2016	15.59	62 851	4 033	1.11 ⁴	1.11	146.47	0.33
Dec. 31, 2015	13.04	57 305	4 395	1.19	1.19	207.29	0.48
Dec. 31, 2014	14.31	75 124	5 251	1.19	1.19	169.49	0.46
Dec. 31, 2013	13.47	73 018	5 421	1.20	1.20	187.07	0.53
Series F							
Dec. 31, 2017	15.62	2 016	129	0.78	0.78	97.63	0.17
Dec. 31, 2016	15.60	1 361	87	0.85 ⁴	0.85	146.47	0.33
Dec. 31, 2015	13.06	1 265	97	0.93	0.93	207.29	0.48
Dec. 31, 2014	14.34	938	65	0.96	0.96	169.49	0.46
Dec. 31, 2013	13.52	733	54	0.95	0.95	187.07	0.53
Series O							
Dec. 31, 2017	15.49	865 341	55 874	0.07	0.07	97.63	0.17
Dec. 31, 2016	15.45	865 635	56 030	0.07	0.07	146.47	0.33
Dec. 31, 2015	12.91	920 098	71 280	0.07	0.07	207.29	0.48
Dec. 31, 2014	14.30	754 281	52 761	0.07	0.07	169.49	0.46
Dec. 31, 2013	13.42	98 535	7 340	0.07	0.07	187.07	0.53

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ Effective June 30, 2016, the management fees were changed in respect of Series A, Advisor Series, Series D and Series F units of the Fund. If the changes to the management fees would have been in effect throughout 2016, the adjusted MER for each series of the Fund would be: Series A – 1.86%, Advisor Series – 1.86%, Series D – 1.03% and Series F – 0.77%.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio manager of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series A	1.60%	63%	37%
Advisor Series	1.60%	63%	37%
Series D	0.85%	29%	71%
Series F	0.60%	—	100%

Series O – no management fees are paid by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

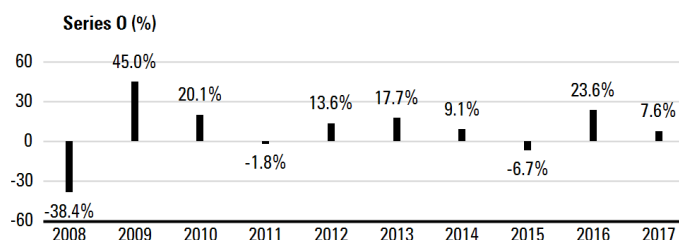
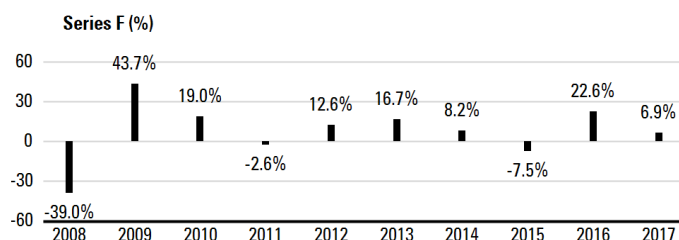
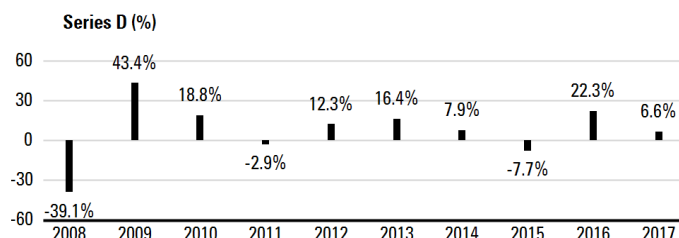
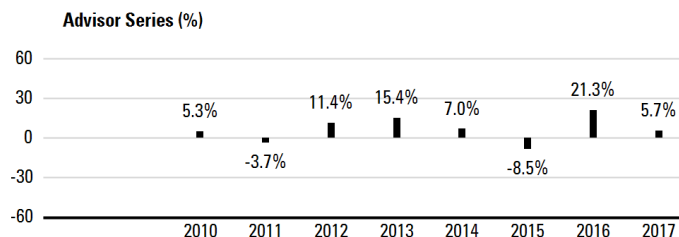
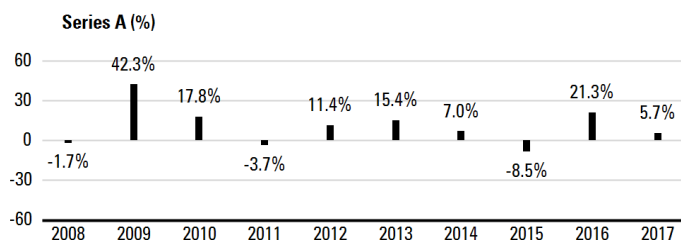
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



PAST PERFORMANCE (cont.)

Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2017, compared with the following benchmark:

S&P/TSX Capped Composite Total Return Index, which is also the broad-based index.

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	5.7	5.5	7.7	—	10.9
Benchmark	9.1	6.6	8.6	—	10.0
Advisor Series	5.7	5.5	7.7	—	7.1
Benchmark	9.1	6.6	8.6	—	6.6
Series D	6.6	6.4	8.6	5.5	—
Benchmark	9.1	6.6	8.6	4.7	—
Series F	6.9	6.6	8.9	5.8	—
Benchmark	9.1	6.6	8.6	4.7	—
Series O	7.6	7.5	9.8	6.7	—
Benchmark	9.1	6.6	8.6	4.7	—

The returns of each series may vary because of differences in management fees and expenses. The Benchmark and broad-based index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Advisor Series units have been available for sale to unitholders since October 2010, and Series A units since November 2008.

Inception dates are not provided for series that have been in existence for more than 10 years.

All outstanding Series C units were renamed Series A units effective June 30, 2016. Series D was known as Series A prior to November 17, 2008.

INDEX DESCRIPTION

S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2017

Investment Mix

	% of Net Asset Value
Financials	42.1
Energy	22.1
Industrials	9.3
Consumer Discretionary	6.3
Information Technology	4.6
Real Estate	3.8
Materials	3.3
Consumer Staples	2.9
Telecommunication Services	1.6
Utilities	1.5
Cash/Other	2.5

Top 25 Holdings

	% of Net Asset Value
Toronto-Dominion Bank	8.3
Royal Bank of Canada	8.0
Enbridge Inc.	5.8
Bank of Nova Scotia	4.0
Brookfield Asset Management Inc., Class A	3.9
Canadian Imperial Bank of Commerce	3.8
Manulife Financial Corporation	3.2
TransCanada Corp.	2.9
Alimentation Couche-Tard Inc.	2.9
Bank of Montreal	2.8
Waste Connections Inc.	2.4
Stantec Inc.	2.4
ARC Resources Ltd.	2.1
Canadian National Railway Co.	2.0
Shaw Communications Inc., Class B	2.0
Keyera Corp.	2.0
Canadian Pacific Railway Ltd.	2.0
Suncor Energy Inc.	1.9
Fairfax Financial Holdings Ltd.	1.9
Thomson Corp.	1.7
Quebecor Inc., Class B	1.7
Open Text Corp.	1.6
CGI Group Inc., Class A	1.5
First Capital Realty Inc.	1.5
Dollarama Inc.	1.5
Top 25 Holdings	73.8

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.rbcgam.com/funds, or by emailing us at info@phn.com.

CANADIAN EQUITY FUND

PHILLIPS, HAGER & NORTH
VINTAGE FUND

 December 31, 2017

Portfolio Manager *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 8, 2018.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to provide investors with long-term capital growth and dividend income by investing primarily in a well-diversified portfolio of Canadian common stocks listed on the TSX. To achieve the Fund's investment objective, the portfolio manager focuses on companies that earned a return on shareholders equity that is above average within their industry over the previous five to 10 years and maintained financial strength. The Fund's investments may also emphasize small-capitalization securities when valuation levels are attractive.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

Effective June 30, 2017, RBC GAM adopted the risk classification methodology under National Instrument 81-102 – *Investment Funds* (the "new risk classification methodology"). Pursuant to the new risk classification methodology, certain funds' risk ratings were changed. RBC GAM reviews each fund's risk rating on an annual basis or if there has been a material change to a fund's investment objectives or investment strategies. Any changes to a fund's risk rating are the result of RBC GAM's annual review and the adoption of the new risk classification methodology.

Effective June 30, 2017, the Fund's risk rating changed from medium to medium-to-high.

Results of Operations

The Fund's net asset value rose to \$68 million as of December 31, 2017, from \$62 million at the end of 2016. The increase was due mainly to investment returns.

Over the past year, the Fund's Series O units gained 6.9%, which underperformed the 9.1% rise in the benchmark. The Fund's return is after the deduction of expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

The Canadian equity market, as measured by the S&P/TSX Capped Composite Index, surged to record highs to close out 2017. Ten out of the 11 industry sectors posted gains during the year, with Energy being the only one to decline. A rise in oil prices in the latter half of 2017 muted some of the sector's negative impact. The Financials, Consumer Discretionary and Industrials sectors contributed the most to index returns after a slow start to the year, offsetting mid-year worries related to surging home prices and consumer debt.

In the Financials sector, a position in Home Capital Group held back the Fund's returns over the year. The Energy sector was the biggest detractor from performance, with positions in Cenovus Energy and Crescent Point Energy having a large negative impact during the period.

In the Consumer Discretionary sector, the Fund's overweight position in Quebecor Inc. added significantly to returns. The Fund's holdings in the Utilities sector aided returns, led by Brookfield Infrastructure Partners and Fortis.

Recent Developments

Economic momentum in developed and emerging markets has shown little sign of slowing, and low inflation and accommodative monetary policies remain supportive. Synchronized global growth continues to be led by the U.S., whose central bank will likely continue with interest-rate hikes in 2018. The recently enacted U.S. tax cuts have the potential to maintain corporate earnings momentum. A steady and sustained expansion continues globally but political tensions remain a risk on the horizon.

Related-Party Transactions

Manager and Portfolio Manager

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank and is the manager and principal portfolio manager of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund. Both the management fee and fixed administration fee are calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund.

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies. The Fund also maintains bank accounts and overdraft provisions with Royal Bank for which Royal Bank may earn a fee. Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series A, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and holds title to the Fund's property on behalf of unitholders. RBC IS is the custodian of the Fund and holds the assets of the Fund.

RBC IS earns a fee as the trustee and custodian, which is paid by the manager from the fixed administration fee paid by the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund. The registrars earn a fee, which is paid by the manager from the fixed administration fee paid by the Fund.

Brokers and Dealers

The Fund has established standard brokerage and dealing agreements at market rates with related parties. These related-party commissions were \$3,000 (2016 – \$6,000), or 5% (2016 – 10%) of the total transaction costs paid for this Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Independent Review Committee with respect to one or more of the following transactions:

Related-Party Trading Activities

- (a) trades in securities of Royal Bank;
- (b) investments in the securities of issuers for which a related-party dealer acted as an underwriter during the distribution of such securities and the 60-day period following the conclusion of such distribution of the underwritten securities to the public;
- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal; and

Inter-Fund Trading

- (d) purchases or sales of securities of an issuer from or to another investment fund or managed account managed by RBC GAM.

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²					Net Assets End of Year/Period
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital	Total	
Series A												
Dec. 31, 2017	29.64	0.66	(0.64)	1.48	(0.11)	1.39	—	—	—	—	—	31.03
Dec. 31, 2016	24.41	0.64	(0.59)	0.59	4.43	5.07	—	—	—	—	—	29.64
Dec. 31, 2015	27.22	0.70	(0.61)	0.30	(3.39)	(3.00)	—	—	—	—	—	24.41
Dec. 31, 2014	24.50	0.57	(0.62)	3.34	(0.73)	2.56	—	—	—	—	—	27.22
Dec. 31, 2013	18.37	0.42	(0.49)	1.53	4.64	6.10	—	—	—	—	—	24.47
Advisor Series												
Dec. 31, 2017	29.68	0.66	(0.64)	1.48	(0.17)	1.33	—	—	—	—	—	31.07
Dec. 31, 2016	24.44	0.65	(0.59)	0.59	4.60	5.25	—	—	—	—	—	29.68
Dec. 31, 2015	27.25	0.70	(0.61)	0.30	(3.38)	(2.99)	—	—	—	—	—	24.44
Dec. 31, 2014	24.53	0.56	(0.63)	3.31	(0.72)	2.52	—	—	—	—	—	27.25
Dec. 31, 2013	18.37	0.39	(0.51)	1.45	4.38	5.71	—	—	—	—	—	24.50
Series D												
Dec. 31, 2017	30.83	0.69	(0.40)	1.55	(0.22)	1.62	—	(0.17)	—	—	(0.17)	32.38
Dec. 31, 2016	25.37	0.67	(0.38)	0.61	4.72	5.62	—	(0.24)	—	—	(0.24)	30.83
Dec. 31, 2015	28.25	0.73	(0.41)	0.32	(3.53)	(2.89)	—	(0.17)	—	—	(0.17)	25.37
Dec. 31, 2014	25.26	0.60	(0.40)	3.52	(0.77)	2.95	—	(0.06)	—	—	(0.06)	28.25
Dec. 31, 2013	18.79	0.43	(0.32)	1.57	4.77	6.45	—	—	—	—	—	25.23
Series F												
Dec. 31, 2017	32.05	0.71	(0.35)	1.60	0.82	2.78	—	(0.26)	—	—	(0.26)	33.66
Dec. 31, 2016	26.37	0.69	(0.32)	0.63	4.59	5.59	—	(0.33)	—	—	(0.33)	32.05
Dec. 31, 2015	29.37	0.75	(0.36)	0.33	(3.65)	(2.93)	—	(0.24)	—	—	(0.24)	26.37
Dec. 31, 2014	26.25	0.61	(0.35)	3.57	(0.78)	3.05	—	(0.12)	—	—	(0.12)	29.37
Dec. 31, 2013	19.52	0.44	(0.27)	1.63	4.95	6.75	—	(0.06)	—	—	(0.06)	26.22
Series O												
Dec. 31, 2017	33.52	0.75	(0.02)	1.69	—	2.42	(0.01)	(0.62)	—	—	(0.63)	35.20
Dec. 31, 2016	27.56	0.74	(0.02)	0.67	5.47	6.86	—	(0.67)	—	—	(0.67)	33.52
Dec. 31, 2015	30.70	0.79	(0.02)	0.34	(3.83)	(2.72)	—	(0.58)	—	—	(0.58)	27.56
Dec. 31, 2014	27.42	0.65	(0.02)	3.82	(0.84)	3.61	—	(0.46)	—	—	(0.46)	30.70
Dec. 31, 2013	20.38	0.47	(0.02)	1.72	5.22	7.39	—	(0.35)	—	—	(0.35)	27.40

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series A							
Dec. 31, 2017	31.03	1 349	43	2.13	2.13	56.41	0.09
Dec. 31, 2016	29.64	1 702	57	2.23 ⁴	2.23	52.97	0.11
Dec. 31, 2015	24.41	1 781	73	2.27	2.28	41.32	0.11
Dec. 31, 2014	27.22	2 160	79	2.29	2.30	59.45	0.11
Dec. 31, 2013	24.50	529	22	2.30	2.30	60.77	0.13
Advisor Series							
Dec. 31, 2017	31.07	877	28	2.13	2.13	56.41	0.09
Dec. 31, 2016	29.68	797	27	2.22 ⁴	2.22	52.97	0.11
Dec. 31, 2015	24.44	453	19	2.27	2.28	41.32	0.11
Dec. 31, 2014	27.25	500	18	2.29	2.30	59.45	0.11
Dec. 31, 2013	24.53	40	2	2.30	2.30	60.77	0.13
Series D							
Dec. 31, 2017	32.38	32 105	991	1.29	1.29	56.41	0.09
Dec. 31, 2016	30.83	34 976	1 134	1.37 ⁴	1.37	52.97	0.11
Dec. 31, 2015	25.37	31 096	1 226	1.45	1.46	41.32	0.11
Dec. 31, 2014	28.25	37 446	1 326	1.45	1.46	59.45	0.11
Dec. 31, 2013	25.26	34 678	1 373	1.47	1.47	60.77	0.13
Series F							
Dec. 31, 2017	33.66	2 177	65	1.06	1.06	56.41	0.09
Dec. 31, 2016	32.05	987	31	1.14 ⁴	1.14	52.97	0.11
Dec. 31, 2015	26.37	2 585	98	1.22	1.23	41.32	0.11
Dec. 31, 2014	29.37	1 685	57	1.19	1.20	59.45	0.11
Dec. 31, 2013	26.25	130	5	1.20	1.20	60.77	0.13
Series O							
Dec. 31, 2017	35.20	31 121	884	0.06	0.06	56.41	0.09
Dec. 31, 2016	33.52	23 929	714	0.07	0.07	52.97	0.11
Dec. 31, 2015	27.56	16 583	602	0.06	0.07	41.32	0.11
Dec. 31, 2014	30.70	8 741	285	0.06	0.07	59.45	0.11
Dec. 31, 2013	27.42	4 677	171	0.07	0.07	60.77	0.13

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ Effective June 30, 2016, the management fees were changed in respect of Series A, Advisor Series, Series D and Series F units of the Fund. If the changes to the management fees would have been in effect throughout 2016, the adjusted MER for each series of the Fund would be: Series A – 2.14%, Advisor Series – 2.14%, Series D – 1.29% and Series F – 1.02%.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio manager of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series A	1.85%	54%	46%
Advisor Series	1.85%	54%	46%
Series D	1.10%	23%	77%
Series F	0.85%	—	100%

Series O – no management fees are paid by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

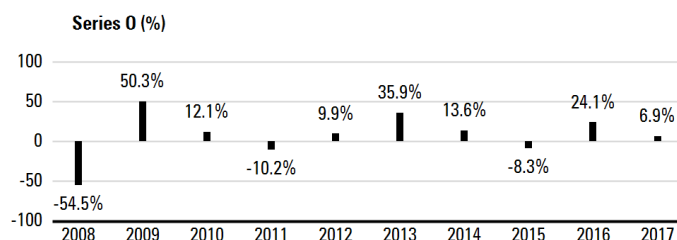
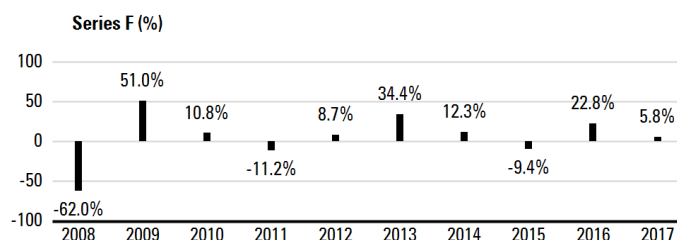
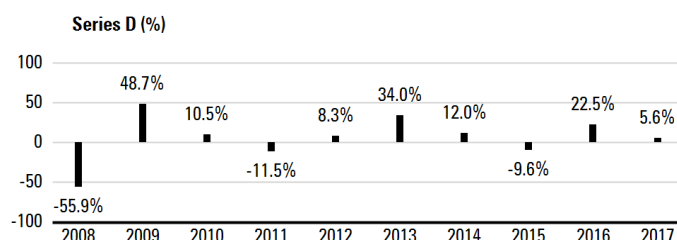
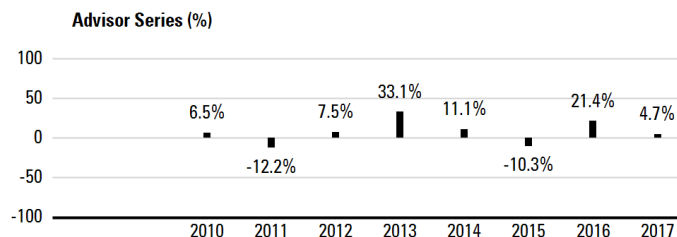
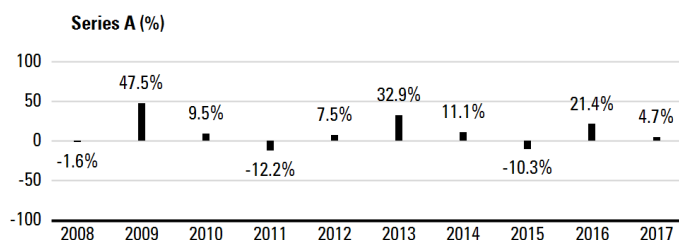
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



PAST PERFORMANCE (cont.)

Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2017, compared with the following benchmark:

S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	4.7	4.5	11.0	—	10.8
Benchmark	9.1	6.6	8.6	—	10.0
Advisor Series	4.7	4.5	11.0	—	7.7
Benchmark	9.1	6.6	8.6	—	6.6
Series D	5.6	5.3	11.9	2.0	—
Benchmark	9.1	6.6	8.6	4.7	—
Series F	5.8	5.6	12.2	—	0.9
Benchmark	9.1	6.6	8.6	—	4.1
Series O	6.9	6.7	13.4	3.6	—
Benchmark	9.1	6.6	8.6	4.7	—

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Advisor Series units have been available for sale to unitholders since October 2010, Series A units since November 2008, and Series F units since June 2008.

Inception dates are not provided for series that have been in existence for more than 10 years.

All outstanding Series C units were renamed Series A units effective June 30, 2016. Series D was known as Series A prior to November 17, 2008.

INDEX DESCRIPTION

S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2017

Investment Mix

	% of Net Asset Value
Financials	32.8
Energy	20.3
Industrials	12.1
Consumer Discretionary	11.2
Information Technology	6.9
Materials	6.1
Consumer Staples	5.5
Real Estate	2.4
Utilities	0.9
Cash/Other	1.8

Top 25 Holdings

	% of Net Asset Value
Toronto-Dominion Bank	6.8
Royal Bank of Canada	6.1
Enbridge Inc.	5.3
Bank of Nova Scotia	4.8
Brookfield Asset Management Inc., Class A	3.8
Quebecor Inc., Class B	3.6
Stantec Inc.	3.0
Alimentation Couche-Tard Inc.	2.9
Badger Daylighting Ltd.	2.7
TransCanada Corp.	2.3
Manulife Financial Corporation	2.1
Fairfax Financial Holdings Ltd.	2.0
Open Text Corp.	2.0
CGI Group Inc., Class A	1.9
Canadian Natural Resources Ltd.	1.9
Dollarama Inc.	1.8
Bank of Montreal	1.8
Cash & Cash Equivalents	1.7
Shaw Communications Inc., Class B	1.7
Boyd Group Income Fund	1.7
Suncor Energy Inc.	1.6
CCL Industries, Class B	1.5
Raging River Exploration Inc.	1.4
Franco-Nevada Corp.	1.4
The Westaim Corp.	1.3
Top 25 Holdings	67.1

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.rbcgam.com/funds, or by emailing us at info@phn.com.

U.S. EQUITY FUND

PHILLIPS, HAGER & NORTH
U.S. DIVIDEND INCOME FUND

December 31, 2017

Portfolio Manager *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 8, 2018.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE**Investment Objective and Strategies**

The Fund seeks to provide investors with long-term capital growth and income by investing primarily in a well-diversified portfolio of dividend income-producing U.S. securities that have a relatively high yield. To achieve the Fund's investment objective, the portfolio manager invests primarily in large-capitalization dividend-paying U.S. common shares and, to a lesser extent, preferred shares and bonds.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

Effective June 30, 2017, RBC GAM adopted the risk classification methodology under National Instrument 81-102 – *Investment Funds* (the "new risk classification methodology"). Pursuant to the new risk classification methodology, certain funds' risk ratings were changed. RBC GAM reviews each fund's risk rating on an annual basis or if there has been a material change to a fund's investment objectives or investment strategies. Any changes to a fund's risk rating are the result of RBC GAM's annual review and the adoption of the new risk classification methodology.

There were no changes to the Fund's risk rating during the reporting period.

Results of Operations

The Fund's net asset value rose to \$214 million as of December 31, 2017, from \$201 million at the end of 2016. The increase was due to investment returns, partially offset by net redemptions.

Over the past year, the Fund's Series O units gained 13.4%, which underperformed the 14.1% rise in the benchmark. The Fund's return is after the deduction of expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

The U.S. stock market finished a strong year, on the back of solid returns from cyclical sectors. The strong overall performance was driven by the continuation of the synchronized global economic expansion, still accommodative global central-bank policy and low market interest rates and inflation. These factors drove better-than-expected financial performance for most U.S. companies. Tax reform also helped to lift investor sentiment late in the year.

During the year, the Fund's relative performance was boosted by the Industrials and Consumer Discretionary sectors, while Information Technology had a negative impact.

In the Industrials sector, returns were aided by an overweight position in Boeing, which was the top-performing stock in the Dow Jones Industrial Average during the year. The stock has benefited from President Trump's stance on trade and defence, while simultaneously reaping benefits from strong cost-reduction efforts.

In the Consumer Discretionary sector, traditional retailers have been under pressure as consumers shift towards purchasing items online and preferring experiences instead of things. However, areas of the sector that are disruptors or are less sensitive to disruption generally produced strong results during the year. In particular, the Fund's overweight position in Aptiv aided returns as the company continues to build out its self-driving vehicle capabilities.

In contrast, the Fund's underweight allocation relative to the S&P 500 Index to the top-performing Information Technology sector was a negative. However, the sector has a high allocation to non-dividend-paying, growth-oriented stocks, limiting the selection set for a dividend-investing approach.

Recent Developments

While the portfolio manager's base case is for stocks to rise modestly over the next year, there are several scenarios that could lead to declines, including an escalation of tensions with North Korea, a potential policy mistake by the U.S. Federal Reserve (the "Fed") or protectionist trade moves by the Trump administration. The portfolio manager's indicators suggest that the odds of a recession remain fairly low, but with valuations at an eight-year high and the Fed intent on normalizing interest rates, the risks have increased and earnings growth remains key for return prospects.

Related-Party Transactions***Manager and Portfolio Manager***

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank and is the manager and principal portfolio manager of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund. Both the management fee and fixed administration fee are calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund.

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies. The Fund also maintains bank accounts and overdraft provisions with Royal Bank for which Royal Bank may earn a fee. Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series A, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and holds title to the Fund's property on behalf of unitholders. RBC IS is the custodian of the Fund and holds the assets of the Fund.

RBC IS earns a fee as the trustee and custodian, which is paid by the manager from the fixed administration fee paid by the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund. The registrars earn a fee, which is paid by the manager from the fixed administration fee paid by the Fund.

Brokers and Dealers

The Fund has established standard brokerage and dealing agreements at market rates with related parties. These related-party commissions were \$5,000 (2016 – \$25,000), or 4% (2016 – 17%) of the total transaction costs paid for this Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Independent Review Committee with respect to one or more of the following transactions:

Related-Party Trading Activities

- (a) trades in securities of Royal Bank;
- (b) investments in the securities of issuers for which a related-party dealer acted as an underwriter during the distribution of such securities and the 60-day period following the conclusion of such distribution of the underwritten securities to the public;
- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal; and

Inter-Fund Trading

- (d) purchases or sales of securities of an issuer from or to another investment fund or managed account managed by RBC GAM.

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²					Net Assets End of Year/Period
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital	Total	
Series A												
Dec. 31, 2017	14.30	0.35	(0.28)	0.63	0.88	1.58	—	(0.06)	(0.20)	—	(0.26)	15.67
Dec. 31, 2016	13.52	0.34	(0.26)	1.57	(0.54)	1.11	—	(0.08)	(0.30)	—	(0.38)	14.30
Dec. 31, 2015	12.08	0.41	(0.26)	1.37	0.06	1.58	—	(0.15)	—	—	(0.15)	13.52
Dec. 31, 2014	10.26	0.30	(0.23)	1.56	0.24	1.87	—	(0.07)	—	—	(0.07)	12.08
Dec. 31, 2013	7.54	0.23	(0.19)	0.44	2.20	2.68	—	(0.03)	—	—	(0.03)	10.26
Advisor Series												
Dec. 31, 2017	14.30	0.35	(0.28)	0.63	0.93	1.63	—	(0.07)	(0.20)	—	(0.27)	15.67
Dec. 31, 2016	13.52	0.34	(0.26)	1.57	(0.62)	1.03	—	(0.08)	(0.30)	—	(0.38)	14.30
Dec. 31, 2015	12.08	0.41	(0.26)	1.37	0.06	1.58	—	(0.15)	—	—	(0.15)	13.52
Dec. 31, 2014	10.26	0.30	(0.23)	1.56	0.24	1.87	—	(0.07)	—	—	(0.07)	12.08
Dec. 31, 2013	7.54	0.22	(0.19)	0.43	2.17	2.63	—	(0.03)	—	—	(0.03)	10.26
Series D												
Dec. 31, 2017	14.20	0.35	(0.15)	0.62	0.93	1.75	—	(0.21)	(0.20)	—	(0.41)	15.55
Dec. 31, 2016	13.43	0.34	(0.15)	1.56	(0.53)	1.22	—	(0.21)	(0.31)	—	(0.52)	14.20
Dec. 31, 2015	12.01	0.41	(0.15)	1.37	0.06	1.69	—	(0.27)	—	—	(0.27)	13.43
Dec. 31, 2014	10.20	0.30	(0.13)	1.56	0.24	1.97	—	(0.17)	—	—	(0.17)	12.01
Dec. 31, 2013	7.49	0.23	(0.11)	0.44	2.22	2.78	—	(0.12)	—	—	(0.12)	10.20
Series F												
Dec. 31, 2017	14.15	0.35	(0.11)	0.62	0.98	1.84	—	(0.26)	(0.20)	—	(0.46)	15.48
Dec. 31, 2016	13.40	0.34	(0.11)	1.56	(0.36)	1.43	—	(0.25)	(0.31)	—	(0.56)	14.15
Dec. 31, 2015	11.98	0.41	(0.12)	1.37	0.06	1.72	—	(0.30)	—	—	(0.30)	13.40
Dec. 31, 2014	10.17	0.30	(0.10)	1.56	0.24	2.00	—	(0.20)	—	—	(0.20)	11.98
Dec. 31, 2013	7.47	0.23	(0.09)	0.44	2.20	2.78	—	(0.14)	—	—	(0.14)	10.17
Series O												
Dec. 31, 2017	14.21	0.35	(0.01)	0.63	0.95	1.92	—	(0.37)	(0.20)	—	(0.57)	15.55
Dec. 31, 2016	13.44	0.34	(0.01)	1.57	(0.54)	1.36	—	(0.35)	(0.31)	—	(0.66)	14.21
Dec. 31, 2015	12.02	0.41	(0.01)	1.37	0.06	1.83	—	(0.43)	—	—	(0.43)	13.44
Dec. 31, 2014	10.21	0.30	(0.01)	1.57	0.24	2.10	—	(0.30)	—	—	(0.30)	12.02
Dec. 31, 2013	7.49	0.23	(0.01)	0.44	2.22	2.88	—	(0.23)	—	—	(0.23)	10.20

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series A							
Dec. 31, 2017	15.67	13 333	851	1.88	1.88	62.26	0.06
Dec. 31, 2016	14.30	13 461	941	1.95 ⁴	1.95	96.36	0.08
Dec. 31, 2015	13.52	12 974	959	2.04	2.04	76.34	0.07
Dec. 31, 2014	12.08	11 575	958	2.05	2.05	47.76	0.07
Dec. 31, 2013	10.26	9 137	890	2.07	2.07	27.71	0.06
Advisor Series							
Dec. 31, 2017	15.67	12 497	797	1.88	1.88	62.26	0.06
Dec. 31, 2016	14.30	11 523	806	1.95 ⁴	1.95	96.36	0.08
Dec. 31, 2015	13.52	12 585	931	2.04	2.04	76.34	0.07
Dec. 31, 2014	12.08	11 345	939	2.05	2.05	47.76	0.07
Dec. 31, 2013	10.26	7 286	710	2.07	2.07	27.71	0.06
Series D							
Dec. 31, 2017	15.55	88 507	5 693	1.04	1.04	62.26	0.06
Dec. 31, 2016	14.20	78 706	5 544	1.10 ⁴	1.10	96.36	0.08
Dec. 31, 2015	13.43	78 132	5 816	1.19	1.19	76.34	0.07
Dec. 31, 2014	12.01	68 368	5 694	1.19	1.19	47.76	0.07
Dec. 31, 2013	10.20	59 344	5 818	1.19	1.19	27.71	0.06
Series F							
Dec. 31, 2017	15.48	14 036	906	0.78	0.78	62.26	0.06
Dec. 31, 2016	14.15	10 012	708	0.85 ⁴	0.85	96.36	0.08
Dec. 31, 2015	13.40	7 349	548	0.94	0.94	76.34	0.07
Dec. 31, 2014	11.98	4 597	384	0.94	0.94	47.76	0.07
Dec. 31, 2013	10.17	3 336	328	0.94	0.94	27.71	0.06
Series O							
Dec. 31, 2017	15.55	85 168	5 476	0.09	0.09	62.26	0.06
Dec. 31, 2016	14.21	87 618	6 167	0.08	0.08	96.36	0.08
Dec. 31, 2015	13.44	90 426	6 729	0.08	0.08	76.34	0.07
Dec. 31, 2014	12.02	94 196	7 837	0.08	0.08	47.76	0.07
Dec. 31, 2013	10.21	88 273	8 649	0.08	0.08	27.71	0.06

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ Effective June 30, 2016, the management fees were changed in respect of Series A, Advisor Series, Series D and Series F units of the Fund. If the changes to the management fees would have been in effect throughout 2016, the adjusted MER for each series of the Fund would be: Series A – 1.87%, Advisor Series – 1.87%, Series D – 1.02% and Series F – 0.77%.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio manager of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series A	1.60%	63%	37%
Advisor Series	1.60%	63%	37%
Series D	0.85%	29%	71%
Series F	0.60%	—	100%

Series O – no management fees are paid by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

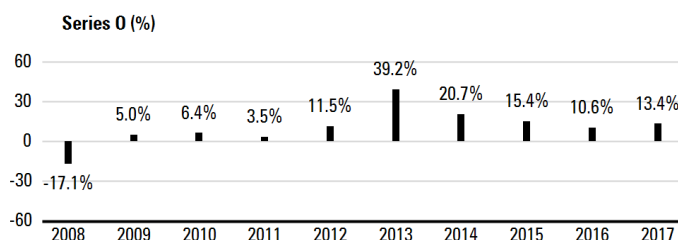
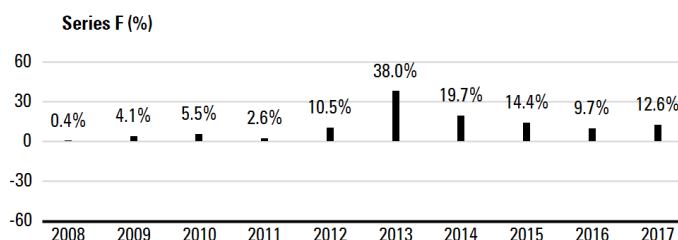
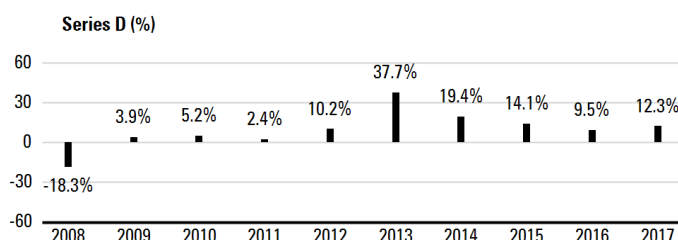
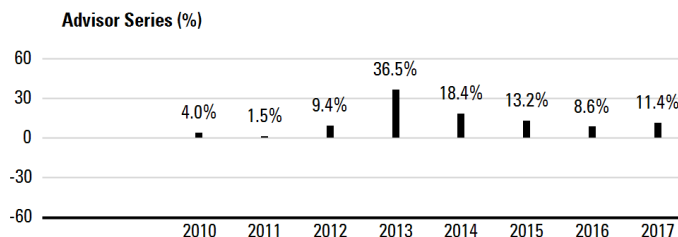
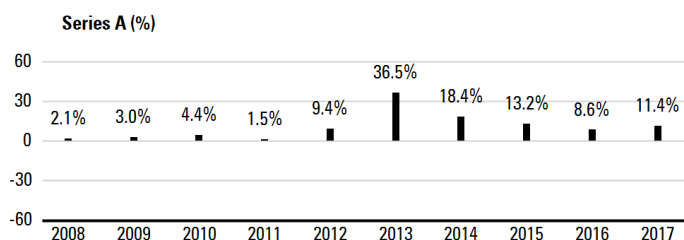
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



PAST PERFORMANCE (cont.)**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2017, compared with the following benchmark:

S&P 500 Total Return Index (CAD)

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	11.4	11.0	17.2	—	11.5
Benchmark	14.1	14.4	21.4	—	15.4
Advisor Series	11.4	11.0	17.2	—	14.0
Benchmark	14.1	14.4	21.4	—	17.8
Series D	12.3	12.0	18.2	8.8	—
Benchmark	14.1	14.4	21.4	11.1	—
Series F	12.6	12.2	18.5	—	12.4
Benchmark	14.1	14.4	21.4	—	14.6
Series O	13.4	13.1	19.4	10.0	—
Benchmark	14.1	14.4	21.4	11.1	—

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Advisor Series units have been available for sale to unitholders since October 2010, Series A units since November 2008, and Series F units since October 2008.

Inception dates are not provided for series that have been in existence for more than 10 years.

All outstanding Series C units were renamed Series A units effective June 30, 2016. Series D was known as Series A prior to November 17, 2008.

INDEX DESCRIPTION

S&P 500 Total Return Index (CAD) This index is a capitalization-weighted index measuring the Canadian dollar performance of 500 widely held common stocks representing all major industries in the United States. The index gives investors a broad measure of the overall performance of the U.S. stock market.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2017

Investment Mix

	% of Net Asset Value
Information Technology	21.0
Financials	20.1
Health Care	17.3
Consumer Staples	9.9
Industrials	9.8
Energy	6.7
Consumer Discretionary	6.6
Utilities	3.2
Telecommunication Services	2.5
Materials	1.9
Cash/Other	1.0

Top 25 Holdings

	% of Net Asset Value
Microsoft Corp.	5.1
Johnson & Johnson	4.6
Apple Inc.	4.6
UnitedHealth Group Incorporated	4.3
Bank of America Corp.	3.2
JPMorgan Chase & Co.	3.0
PepsiCo Inc.	2.8
Citigroup Inc.	2.8
Altria Group Inc.	2.7
McDonald's Corp.	2.7
Comcast Corp., Class A	2.7
Philip Morris International Inc.	2.6
Cisco Systems Inc.	2.6
Texas Instruments Inc.	2.5
Chevron Corp.	2.4
NextEra Energy Inc.	2.1
Pfizer Inc.	2.1
Oracle Corporation	1.9
Medtronic Plc.	1.9
Boeing Co.	1.8
PNC Bank Corp.	1.7
Intel Corp.	1.5
AT&T Inc.	1.4
Broadcom Ltd.	1.4
Raytheon Company	1.2
Top 25 Holdings	65.6

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U.S. EQUITY FUND

PHILLIPS, HAGER & NORTH
U.S. MULTI-STYLE ALL-CAP
EQUITY FUND

 December 31, 2017
Portfolio Manager *RBC Global Asset Management Inc. ("RBC GAM")*

Sub-Advisor: RBC Global Asset Management (U.S.) Inc.

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The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

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Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank").

**PHILLIPS, HAGER & NORTH U.S. MULTI-STYLE
ALL-CAP EQUITY FUND**
MANAGEMENT DISCUSSION OF FUND PERFORMANCE
Investment Objective and Strategies

The Fund seeks to provide investors with long-term capital growth by investing in shares of high-quality U.S. companies. To achieve the Fund's investment objective, the portfolio manager invests in quality businesses that have a sustainable competitive advantage, a history of profitability, a solid financial position, opportunities for growth, and a capable management team. Emphasis is placed on a stock's valuation, with effort to select those with relatively low valuations, given the breadth of the U.S. market.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

Effective June 30, 2017, RBC GAM adopted the risk classification methodology under National Instrument 81-102 – *Investment Funds* (the "new risk classification methodology"). Pursuant to the new risk classification methodology, certain funds' risk ratings were changed. RBC GAM reviews each fund's risk rating on an annual basis or if there has been a material change to a fund's investment objectives or investment strategies. Any changes to a fund's risk rating are the result of RBC GAM's annual review and the adoption of the new risk classification methodology.

There were no changes to the Fund's risk rating during the reporting period.

Results of Operations

The Fund's net asset value rose to \$5.3 billion as of December 31, 2017, from \$4.7 billion at the end of 2016. The increase was due to investment returns.

Over the past year, the Fund's Series O units gained 13.5%, which outperformed the 13.4% rise in the benchmark. The Fund's return is after the deduction of expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

Global economic growth surged to the highest in seven years in 2017 thanks to a confluence of factors. The expansion was highly synchronized, encompassing the bulk of developed and many emerging-market nations. In the U.S., measures of confidence and risk appetite were robust, benefiting from the macroeconomic

strength and helping to sustain it. U.S. stocks were also aided by expectations that the Republican-controlled Congress would work with President Trump to pass corporate and personal-income tax cuts, a hope that came to fruition at year end. The continuing expansion in economic growth led the U.S. Federal Reserve (the "Fed") to raise interest rates three times during 2017.

The Fund's QUBE Large Cap Growth component outperformed its benchmark, the Russell Large Cap Growth Index, during the period. The outperformance was due primarily to favourable stock selection within the Consumer Discretionary sector. Adverse stock picks in the Information Technology sector were the biggest detractor from performance. From a sector-allocation standpoint, an overweight allocation to the Information Technology sector hurt portfolio returns during the period, while an underweight position in Industrials aided returns.

The Large Cap Value sleeve outperformed its benchmark, the Russell Top 200 Value Index, due to strong security selection. Favourable stock picks in the Industrials and Information Technology sectors had a positive impact on performance, offsetting adverse stock selection in Consumer Staples.

The QUBE Large Cap Value strategy outperformed its benchmark, the Russell Top 200 Value Index, due to favourable stock picks and sector-allocation decisions. Stock selection in the Industrials, Health Care and Information Technology sectors were the biggest contributors to performance, while stock picks in Consumer Discretionary and Consumer Staples were the largest detractors. From a sector-allocation standpoint, an underweight allocation to Energy benefited the portfolio, while an overweight allocation to Industrials detracted from performance.

Recent Developments

Global stock markets continue to be supported by the synchronized global expansion and better-than-expected corporate profit growth around the world, but the recent rally has pushed equities closer to fair value. While our base case is for U.S. stocks to rise modestly over the next year, there are several scenarios that could lead to declines, including an escalation of tensions with North Korea, a policy mistake by the Fed or protectionist trade moves by the Trump administration. Our indicators suggest that the odds of a recession remain fairly low, but with valuations at an eight-year high and the Fed intent on normalizing interest rates, the risks have increased and earnings growth remains key for return prospects.

**PHILLIPS, HAGER & NORTH U.S. MULTI-STYLE
ALL-CAP EQUITY FUND**
Related-Party Transactions
Manager and Portfolio Manager

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank and is the manager and principal portfolio manager of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund. Both the management fee and fixed administration fee are calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund.

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies. The Fund also maintains bank accounts and overdraft provisions with Royal Bank for which Royal Bank may earn a fee. Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

Sub-Advisor

RBC Global Asset Management (U.S.) Inc. is the sub-advisor and provides investment advice for the Fund. The sub-advisor earns a fee which is calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund. The sub-advisor is paid by the manager from the management fee paid by the Fund.

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series A, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and holds title to the Fund's property on behalf of unitholders. RBC IS is the custodian of the Fund and holds the assets of the Fund.

RBC IS earns a fee as the trustee and custodian, which is paid by the manager from the fixed administration fee paid by the Fund.

Registrars

RBC GAM, RBC IS and Royal Bank are the registrars of the Fund and keep records of who owns units of the Fund. The registrars earn a fee, which is paid by the manager from the fixed administration fee paid by the Fund.

Brokers and Dealers

The Fund has established standard brokerage and dealing agreements at market rates with related parties. These related-party commissions were \$68,000 (2016 – \$30,000), or 2% (2016 – 1%) of the total transaction costs paid for this Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Independent Review Committee with respect to one or more of the following transactions:

Related-Party Trading Activities

- (a) trades in securities of Royal Bank;
- (b) investments in the securities of issuers for which a related-party dealer acted as an underwriter during the distribution of such securities and the 60-day period following the conclusion of such distribution of the underwritten securities to the public;
- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal; and

Inter-Fund Trading

- (d) purchases or sales of securities of an issuer from or to another investment fund or managed account managed by RBC GAM.

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

**PHILLIPS, HAGER & NORTH U.S. MULTI-STYLE
ALL-CAP EQUITY FUND**
FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²					Net Assets End of Year/Period
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital	Total	
Series A												
Dec. 31, 2017	16.46	0.29	(0.32)	1.39	0.46	1.82	—	—	(1.32)	—	(1.32)	17.07
Dec. 31, 2016	16.05	0.29	(0.30)	0.57	0.29	0.85	—	—	(0.59)	—	(0.59)	16.46
Dec. 31, 2015	14.95	0.31	(0.33)	2.16	0.31	2.45	—	—	(1.51)	—	(1.51)	16.05
Dec. 31, 2014	14.16	0.23	(0.31)	2.25	0.73	2.90	—	—	(1.96)	—	(1.96)	14.95
Dec. 31, 2013	11.35	0.21	(0.28)	1.99	2.38	4.30	—	—	(1.44)	—	(1.44)	14.16
Advisor Series												
Dec. 31, 2017	16.49	0.29	(0.32)	1.40	0.34	1.71	—	—	(1.33)	—	(1.33)	17.10
Dec. 31, 2016	16.06	0.29	(0.30)	0.57	0.37	0.93	—	—	(0.57)	—	(0.57)	16.49
Dec. 31, 2015	14.96	0.31	(0.33)	2.18	0.31	2.47	—	—	(1.51)	—	(1.51)	16.06
Dec. 31, 2014	14.16	0.23	(0.31)	2.25	0.73	2.90	—	—	(1.96)	—	(1.96)	14.96
Dec. 31, 2013	11.35	0.21	(0.28)	1.99	2.38	4.30	—	—	(1.44)	—	(1.44)	14.16
Series D												
Dec. 31, 2017	17.17	0.31	(0.18)	1.46	0.53	2.12	—	(0.13)	(1.37)	—	(1.50)	17.85
Dec. 31, 2016	16.74	0.31	(0.18)	0.60	0.21	0.94	—	(0.11)	(0.65)	—	(0.76)	17.17
Dec. 31, 2015	15.48	0.31	(0.20)	2.22	0.32	2.65	—	(0.04)	(1.56)	—	(1.60)	16.74
Dec. 31, 2014	14.49	0.24	(0.18)	2.31	0.75	3.12	—	(0.01)	(1.96)	—	(1.97)	15.48
Dec. 31, 2013	11.55	0.21	(0.16)	2.04	2.44	4.53	—	(0.04)	(1.47)	—	(1.51)	14.49
Series F												
Dec. 31, 2017	17.18	0.31	(0.14)	1.45	0.58	2.20	—	(0.18)	(1.38)	—	(1.56)	17.84
Dec. 31, 2016	16.69	0.31	(0.14)	0.60	0.37	1.14	—	(0.16)	(0.59)	—	(0.75)	17.18
Dec. 31, 2015	15.45	0.32	(0.16)	2.23	0.32	2.71	—	(0.08)	(1.57)	—	(1.65)	16.69
Dec. 31, 2014	14.47	0.24	(0.15)	2.36	0.76	3.21	—	(0.05)	(1.96)	—	(2.01)	15.45
Dec. 31, 2013	11.55	0.21	(0.13)	2.04	2.44	4.56	—	(0.08)	(1.50)	—	(1.58)	14.46
Series O												
Dec. 31, 2017	16.80	0.30	(0.01)	1.43	0.56	2.28	(0.01)	(0.29)	(1.35)	—	(1.65)	17.46
Dec. 31, 2016	16.35	0.30	(0.01)	0.59	0.63	1.51	—	(0.28)	(0.62)	—	(0.90)	16.80
Dec. 31, 2015	15.16	0.30	(0.01)	2.13	0.31	2.73	—	(0.24)	(1.56)	—	(1.80)	16.35
Dec. 31, 2014	14.22	0.23	(0.01)	2.27	0.73	3.22	—	(0.20)	(1.96)	—	(2.16)	15.16
Dec. 31, 2013	11.34	0.21	(0.01)	2.01	2.41	4.62	—	(0.21)	(1.45)	—	(1.66)	14.22

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

**PHILLIPS, HAGER & NORTH U.S. MULTI-STYLE
ALL-CAP EQUITY FUND**
FINANCIAL HIGHLIGHTS (cont.)
Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series A							
Dec. 31, 2017	17.07	3 479	204	1.85	1.85	91.40	0.06
Dec. 31, 2016	16.46	2 427	147	1.93 ⁴	1.93	108.36	0.07
Dec. 31, 2015	16.05	2 558	159	2.02	2.02	133.63	0.12
Dec. 31, 2014	14.95	2 271	152	2.02	2.02	165.12	0.17
Dec. 31, 2013	14.16	1 878	133	2.06	2.06	131.57	0.18
Advisor Series							
Dec. 31, 2017	17.10	760	44	1.85	1.85	91.40	0.06
Dec. 31, 2016	16.49	858	52	1.93 ⁴	1.93	108.36	0.07
Dec. 31, 2015	16.06	870	54	2.02	2.02	133.63	0.12
Dec. 31, 2014	14.96	961	64	2.02	2.02	165.12	0.17
Dec. 31, 2013	14.16	782	55	2.06	2.06	131.57	0.18
Series D							
Dec. 31, 2017	17.85	36 102	2 022	1.02	1.02	91.40	0.06
Dec. 31, 2016	17.17	31 493	1 834	1.10 ⁴	1.10	108.36	0.07
Dec. 31, 2015	16.74	34 522	2 062	1.17	1.17	133.63	0.12
Dec. 31, 2014	15.48	20 754	1 341	1.18	1.18	165.12	0.17
Dec. 31, 2013	14.49	14 892	1 027	1.18	1.18	131.57	0.18
Series F							
Dec. 31, 2017	17.84	3 877	217	0.78	0.78	91.40	0.06
Dec. 31, 2016	17.18	641	37	0.86 ⁴	0.86	108.36	0.07
Dec. 31, 2015	16.69	459	28	0.95	0.95	133.63	0.12
Dec. 31, 2014	15.45	421	27	0.96	0.96	165.12	0.17
Dec. 31, 2013	14.47	940	65	0.93	0.93	131.57	0.18
Series O							
Dec. 31, 2017	17.46	5 292 729	303 211	0.06	0.06	91.40	0.06
Dec. 31, 2016	16.80	4 663 326	277 653	0.06	0.06	108.36	0.07
Dec. 31, 2015	16.35	3 875 711	237 032	0.06	0.06	133.63	0.12
Dec. 31, 2014	15.16	2 211 641	145 900	0.06	0.06	165.12	0.17
Dec. 31, 2013	14.22	1 481 832	104 192	0.06	0.06	131.57	0.18

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ Effective June 30, 2016, the management fees were changed in respect of Series A, Advisor Series, Series D and Series F units of the Fund. If the changes to the management fees would have been in effect throughout 2016, the adjusted MER for each series of the Fund would be: Series A – 1.85%, Advisor Series – 1.85%, Series D – 1.02% and Series F – 0.78%.

**PHILLIPS, HAGER & NORTH U.S. MULTI-STYLE
ALL-CAP EQUITY FUND**
FINANCIAL HIGHLIGHTS (cont.)
Management Fees

RBC GAM is the manager and portfolio manager of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series A	1.60%	63%	37%
Advisor Series	1.60%	63%	37%
Series D	0.85%	29%	71%
Series F	0.60%	—	100%

Series O – no management fees are paid by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

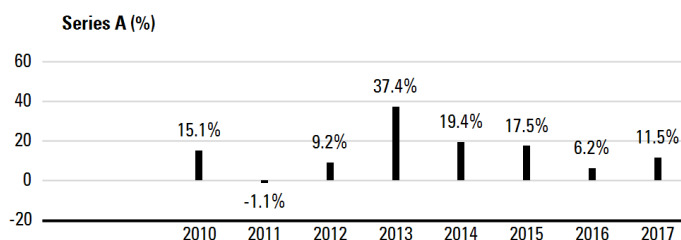
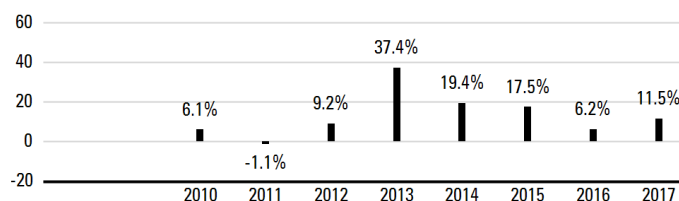
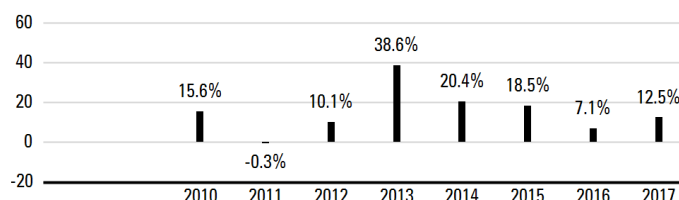
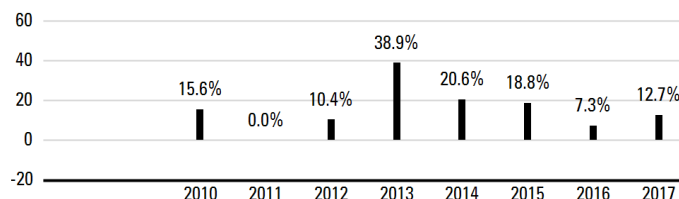
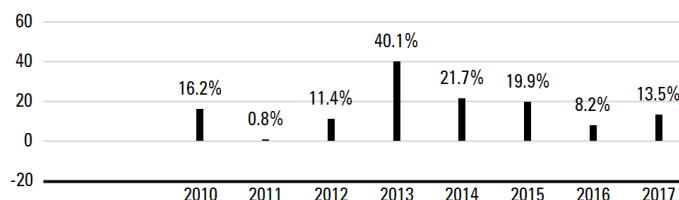
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.


Advisor Series (%)

Series D (%)

Series F (%)

Series O (%)


**PHILLIPS, HAGER & NORTH U.S. MULTI-STYLE
ALL-CAP EQUITY FUND**
PAST PERFORMANCE (cont.)
Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2017, compared with the following benchmark:

Russell 3000 Total Return Index (CAD)

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	11.5	11.6	17.9	—	14.9
Benchmark	13.4	14.1	21.2	—	18.5
Advisor Series	11.5	11.7	18.0	—	14.4
Benchmark	13.4	14.1	21.2	—	17.7
Series D	12.5	12.6	19.0	—	15.9
Benchmark	13.4	14.1	21.2	—	18.5
Series F	12.7	12.9	19.2	—	16.2
Benchmark	13.4	14.1	21.2	—	18.5
Series O	13.5	13.8	20.2	—	17.1
Benchmark	13.4	14.1	21.2	—	18.5

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Advisor Series units have been available for sale to unitholders since October 2010, and Series A, Series D, Series F and Series O units since June 2010.

Inception dates are not provided for series that have been in existence for more than 10 years.

All outstanding Series C units were renamed Series A units effective June 30, 2016.

INDEX DESCRIPTION

Russell 3000 Total Return Index (CAD) This index measures the Canadian dollar performance of the largest 3,000 U.S. companies representing approximately 98% of the U.S. equity market. The index provides a broader barometer of the equity market than the S&P 500 Index.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2017

Investment Mix

	% of Net Asset Value
Information Technology	25.6
Financials	14.8
Health Care	13.5
Consumer Discretionary	12.5
Industrials	11.5
Consumer Staples	8.2
Energy	4.6
Real Estate	2.7
Materials	2.5
Utilities	2.2
Telecommunication Services	1.3
Cash/Other	0.6

Top 25 Holdings

	% of Net Asset Value
Apple Inc.	3.4
Microsoft Corp.	2.9
Johnson & Johnson	1.7
Facebook Inc., Class A	1.7
Home Depot Inc.	1.7
Amazon.com, Inc.	1.5
Bank of America Corp.	1.4
Boeing Co.	1.3
UnitedHealth Group Incorporated	1.3
Exxon Mobil Corp.	1.1
Citigroup Inc.	1.1
Alphabet Inc., Class C	1.1
JPMorgan Chase & Co.	1.0
Mastercard Inc.	1.0
Philip Morris International Inc.	1.0
Wal-Mart Stores, Inc.	0.9
Berkshire Hathaway Inc., Class B	0.9
Altria Group Inc.	0.9
Accenture Plc., Class A	0.8
Intuit Inc.	0.8
Alphabet Inc., Class A	0.8
Chevron Corp.	0.8
International Business Machines	0.8
Cisco Systems Inc.	0.7
Centene Corp.	0.7
Top 25 Holdings	31.3

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.rbcgam.com/funds, or by emailing us at info@phn.com.

U.S. EQUITY FUND

PHILLIPS, HAGER & NORTH
U.S. EQUITY FUND

 December 31, 2017

Portfolio Manager *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 8, 2018.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to provide investors with long-term capital growth by investing primarily in shares of large-capitalization, high-quality U.S. companies. To achieve the Fund's investment objective, the portfolio manager invests in quality businesses that have a sustainable competitive advantage, a history of profitability, a solid financial position, opportunities for growth, and a capable management team. The portfolio manager places particular emphasis on a company's long-term return on equity, as this measure is a key indicator of a company's ability to consistently generate profits for shareholders. Additional emphasis is placed on a stock's valuation, given the breadth of the U.S. market.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

Effective June 30, 2017, RBC GAM adopted the risk classification methodology under National Instrument 81-102 – *Investment Funds* (the "new risk classification methodology"). Pursuant to the new risk classification methodology, certain funds' risk ratings were changed. RBC GAM reviews each fund's risk rating on an annual basis or if there has been a material change to a fund's investment objectives or investment strategies. Any changes to a fund's risk rating are the result of RBC GAM's annual review and the adoption of the new risk classification methodology.

There were no changes to the Fund's risk rating during the reporting period.

Results of Operations

The Fund's net asset value fell to \$580 million as of December 31, 2017, from \$582 million at the end of 2016. The decrease was due to net redemptions, largely offset by investment returns.

Over the past year, the Fund's Series O units gained 16.0%, which outperformed the 14.1% rise in the benchmark. The Fund's return is after the deduction of expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

The U.S. stock market finished a strong year, on the back of solid returns from cyclical sectors. The strong overall performance was driven by the continuation of the synchronized global economic expansion, still accommodative global central-bank policy and low

market interest rates and inflation. These factors drove better-than-expected financial performance for most U.S. companies. Tax reform also helped to lift investor sentiment late in the year.

During the year, the Fund's relative performance was boosted by the Information Technology and Financials sectors, while Consumer Staples had a negative impact.

The Fund benefited from strong security selection and an overweight allocation to the Information Technology sector during the year. Technology advancements such as artificial intelligence and electric vehicles have boosted demand for semiconductors. As a result, the Fund's overweight position in Lam Research aided relative returns.

Relative performance in the Financials sector was aided by security selection. U.S. financial companies, particularly U.S. banks, are poised to be large beneficiaries of U.S. tax legislation. Higher growth, rising interest rates and low credit provisions are potential catalysts for the banks.

Conversely, security selection in the Consumer Staples sector had a negative impact on relative returns during the year. The Fund's overweight position in Kraft Heinz weighed on the Fund as packaged-foods companies have been under pressure from tightening profit margins.

Recent Developments

While the portfolio manager's base case is for stocks to rise modestly over the next year, there are several scenarios that could lead to declines, including an escalation of tensions with North Korea, a potential policy mistake by the U.S. Federal Reserve (the "Fed") or protectionist trade moves by the Trump administration. The portfolio manager's indicators suggest that the odds of a recession remain fairly low, but with valuations at an eight-year high and the Fed intent on normalizing interest rates, the risks have increased and earnings growth remains key for return prospects.

Related-Party Transactions

Manager and Portfolio Manager

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank and is the manager and principal portfolio manager of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund. Both the management fee and fixed administration fee are calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund.

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies. The Fund also maintains bank accounts and overdraft provisions with Royal Bank for which Royal Bank may earn a fee. Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series A, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and holds title to the Fund's property on behalf of unitholders. RBC IS is the custodian of the Fund and holds the assets of the Fund.

RBC IS earns a fee as the trustee and custodian, which is paid by the manager from the fixed administration fee paid by the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund. The registrars earn a fee, which is paid by the manager from the fixed administration fee paid by the Fund.

Brokers and Dealers

The Fund has established standard brokerage and dealing agreements at market rates with related parties. These related-party commissions were \$42,000 (2016 – \$0), or 9% (2016 – 0%) of the total transaction costs paid for this Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Independent Review Committee with respect to one or more of the following transactions:

Related-Party Trading Activities

- (a) trades in securities of Royal Bank;
- (b) investments in the securities of issuers for which a related-party dealer acted as an underwriter during the distribution of such securities and the 60-day period following the conclusion of such distribution of the underwritten securities to the public;
- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal; and

Inter-Fund Trading

- (d) purchases or sales of securities of an issuer from or to another investment fund or managed account managed by RBC GAM.

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²					Net Assets End of Year/Period
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series A												
Dec. 31, 2017	58.44	0.91	(1.17)	6.47	1.94	8.15	—	—	—	—	—	66.55
Dec. 31, 2016	57.22	1.22	(1.06)	0.34	0.16	0.66	—	—	—	—	—	58.44
Dec. 31, 2015	51.52	0.99	(1.13)	13.91	(7.84)	5.93	—	—	—	—	—	57.22
Dec. 31, 2014	43.64	0.86	(0.97)	10.86	(2.88)	7.87	—	(0.19)	—	—	(0.19)	51.52
Dec. 31, 2013	31.76	0.62	(0.77)	5.49	6.60	11.94	—	—	—	—	—	43.63
Advisor Series												
Dec. 31, 2017	58.44	0.91	(1.17)	6.46	1.69	7.89	—	—	—	—	—	66.56
Dec. 31, 2016	57.22	1.22	(1.07)	0.34	(1.47)	(0.98)	—	—	—	—	—	58.44
Dec. 31, 2015	51.52	0.99	(1.13)	13.90	(7.83)	5.93	—	—	—	—	—	57.22
Dec. 31, 2014	43.64	0.86	(0.97)	10.86	(2.88)	7.87	—	(0.19)	—	—	(0.19)	51.52
Dec. 31, 2013	31.76	0.62	(0.78)	5.45	6.55	11.84	—	—	—	—	—	43.64
Series D												
Dec. 31, 2017	58.30	0.91	(0.64)	6.48	1.97	8.72	—	(0.28)	—	—	(0.28)	66.69
Dec. 31, 2016	57.08	1.22	(0.60)	0.34	0.29	1.25	—	(0.50)	—	—	(0.50)	58.30
Dec. 31, 2015	51.27	0.99	(0.65)	13.88	(7.82)	6.40	—	(0.37)	—	—	(0.37)	57.08
Dec. 31, 2014	43.42	0.85	(0.56)	10.76	(2.85)	8.20	—	(0.63)	—	—	(0.63)	51.27
Dec. 31, 2013	31.59	0.61	(0.44)	5.38	6.48	12.03	—	(0.36)	—	—	(0.36)	43.42
Series F												
Dec. 31, 2017	58.55	0.92	(0.48)	6.52	1.31	8.27	(0.01)	(0.45)	—	—	(0.46)	66.97
Dec. 31, 2016	57.33	1.23	(0.46)	0.34	1.16	2.27	—	(0.65)	—	—	(0.65)	58.55
Dec. 31, 2015	51.51	1.00	(0.52)	14.04	(7.91)	6.61	—	(0.51)	—	—	(0.51)	57.33
Dec. 31, 2014	43.62	0.85	(0.45)	10.79	(2.86)	8.33	—	(0.76)	—	—	(0.76)	51.51
Dec. 31, 2013	31.72	0.63	(0.36)	5.52	6.64	12.43	—	(0.44)	—	—	(0.44)	43.62
Series O												
Dec. 31, 2017	59.19	0.93	(0.01)	6.61	2.07	9.60	(0.01)	(0.98)	—	—	(0.99)	67.69
Dec. 31, 2016	57.93	1.24	(0.01)	0.34	0.28	1.85	—	(1.14)	—	—	(1.14)	59.19
Dec. 31, 2015	52.07	1.01	(0.01)	14.12	(7.95)	7.17	—	(1.07)	—	—	(1.07)	57.93
Dec. 31, 2014	44.10	0.83	(0.01)	10.48	(2.78)	8.52	—	(1.25)	—	—	(1.25)	52.07
Dec. 31, 2013	32.07	0.63	(0.01)	5.50	6.61	12.73	—	(0.86)	—	—	(0.86)	44.09

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series A							
Dec. 31, 2017	66.55	3 973	60	1.87	1.87	81.57	0.08
Dec. 31, 2016	58.44	4 076	70	1.97 ⁴	1.97	78.06	0.07
Dec. 31, 2015	57.22	4 615	81	2.05	2.05	106.27	0.08
Dec. 31, 2014	51.52	4 259	83	2.06	2.06	38.62	0.07
Dec. 31, 2013	43.64	3 501	80	2.06	2.06	40.87	0.09
Advisor Series							
Dec. 31, 2017	66.56	1 157	17	1.87	1.87	81.57	0.08
Dec. 31, 2016	58.44	1 284	22	1.97 ⁴	1.97	78.06	0.07
Dec. 31, 2015	57.22	1 979	35	2.05	2.05	106.27	0.08
Dec. 31, 2014	51.52	1 815	35	2.06	2.06	38.62	0.07
Dec. 31, 2013	43.64	1 504	34	2.06	2.06	40.87	0.09
Series D							
Dec. 31, 2017	66.69	140 275	2 104	1.02	1.02	81.57	0.08
Dec. 31, 2016	58.30	135 852	2 330	1.10 ⁴	1.10	78.06	0.07
Dec. 31, 2015	57.08	147 545	2 585	1.18	1.18	106.27	0.08
Dec. 31, 2014	51.27	139 838	2 727	1.18	1.18	38.62	0.07
Dec. 31, 2013	43.42	130 937	3 015	1.19	1.19	40.87	0.09
Series F							
Dec. 31, 2017	66.97	4 969	74	0.77	0.77	81.57	0.08
Dec. 31, 2016	58.55	3 777	65	0.84 ⁴	0.84	78.06	0.07
Dec. 31, 2015	57.33	3 580	62	0.94	0.94	106.27	0.08
Dec. 31, 2014	51.51	2 293	45	0.94	0.94	38.62	0.07
Dec. 31, 2013	43.62	1 844	42	0.95	0.95	40.87	0.09
Series O							
Dec. 31, 2017	67.69	429 910	6 351	0.02	0.02	81.57	0.08
Dec. 31, 2016	59.19	437 136	7 386	0.02	0.02	78.06	0.07
Dec. 31, 2015	57.93	399 193	6 891	0.02	0.02	106.27	0.08
Dec. 31, 2014	52.07	438 672	8 425	0.02	0.02	38.62	0.07
Dec. 31, 2013	44.10	697 065	15 806	0.02	0.02	40.87	0.09

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ Effective June 30, 2016, the management fees were changed in respect of Series A, Advisor Series, Series D and Series F units of the Fund. If the changes to the management fees would have been in effect throughout 2016, the adjusted MER for each series of the Fund would be: Series A – 1.88%, Advisor Series – 1.88%, Series D – 1.02% and Series F – 0.77%.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio manager of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series A	1.60%	63%	37%
Advisor Series	1.60%	63%	37%
Series D	0.85%	29%	71%
Series F	0.60%	—	100%

Series O – no management fees are paid by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

* Includes all costs related to management, investment advisory services, general administration and profit.

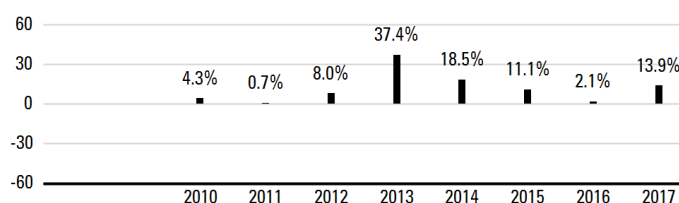
PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

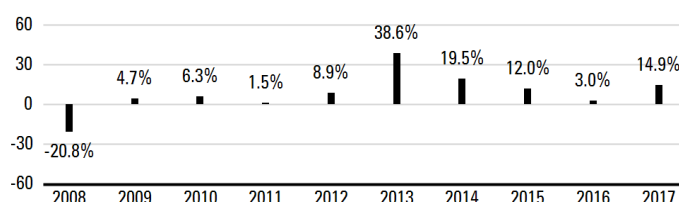
Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.

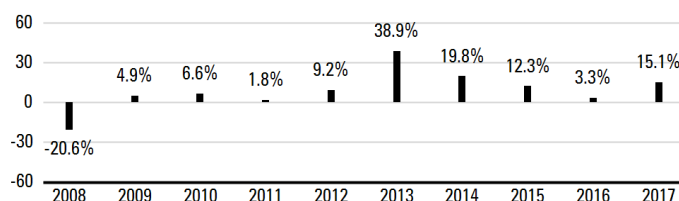
Advisor Series (%)



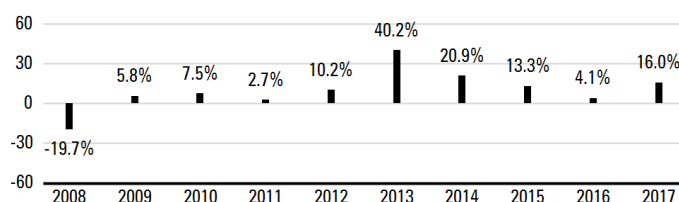
Series D (%)



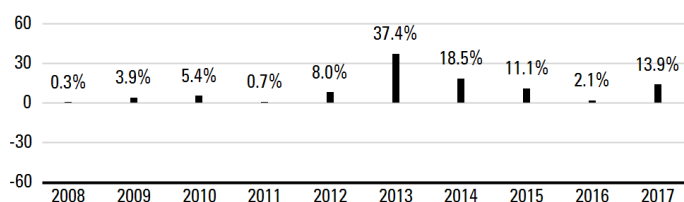
Series F (%)



Series O (%)



Series A (%)



PAST PERFORMANCE (cont.)

Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2017, compared with the following benchmark:

S&P 500 Total Return Index (CAD)

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	13.9	8.9	16.0	—	10.7
Benchmark	14.1	14.4	21.4	—	15.4
Advisor Series	13.9	8.9	16.0	—	12.9
Benchmark	14.1	14.4	21.4	—	17.8
Series D	14.9	9.8	17.0	7.9	—
Benchmark	14.1	14.4	21.4	11.1	—
Series F	15.1	10.1	17.3	8.2	—
Benchmark	14.1	14.4	21.4	11.1	—
Series O	16.0	11.0	18.3	9.1	—
Benchmark	14.1	14.4	21.4	11.1	—

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Advisor Series units have been available for sale to unitholders since October 2010, and Series A units since November 2008.

Inception dates are not provided for series that have been in existence for more than 10 years.

All outstanding Series C units were renamed Series A units effective June 30, 2016. Series D was known as Series A prior to November 17, 2008.

INDEX DESCRIPTION

S&P 500 Total Return Index (CAD) This index is a capitalization-weighted index measuring the Canadian dollar performance of 500 widely held common stocks representing all major industries in the United States. The index gives investors a broad measure of the overall performance of the U.S. stock market.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2017

Investment Mix

	% of Net Asset Value
Information Technology	23.2
Financials	15.3
Consumer Discretionary	13.8
Health Care	13.4
Industrials	11.1
Consumer Staples	7.9
Energy	6.6
Materials	2.3
Utilities	2.0
Telecommunication Services	1.6
Real Estate	1.4
Cash/Other	1.4

Top 25 Holdings

	% of Net Asset Value
Apple Inc.	4.3
Microsoft Corp.	3.4
Alphabet Inc., Class C	3.3
Amazon.com, Inc.	3.2
Berkshire Hathaway Inc., Class B	2.2
Johnson & Johnson	1.9
JPMorgan Chase & Co.	1.9
Facebook Inc., Class A	1.8
Exxon Mobil Corp.	1.8
Bank of America Corp.	1.8
Cash & Cash Equivalents	1.6
Home Depot Inc.	1.6
Chevron Corp.	1.6
UnitedHealth Group Incorporated	1.5
Comcast Corp., Class A	1.3
General Dynamics Corp.	1.3
Intel Corp.	1.2
Union Pacific Corp.	1.2
Visa Inc., Class A	1.2
AbbVie Inc.	1.2
Cisco Systems Inc.	1.2
3M Co.	1.2
McDonald's Corp.	1.1
The Procter & Gamble Co.	1.1
Texas Instruments Inc.	1.1
Top 25 Holdings	45.0

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.rbcgam.com/funds, or by emailing us at info@phn.com.

U.S. EQUITY FUND

PHILLIPS, HAGER & NORTH
CURRENCY-HEDGED U.S. EQUITY FUND

December 31, 2017

Portfolio Manager *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 8, 2018.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank").

**PHILLIPS, HAGER & NORTH CURRENCY-HEDGED
U.S. EQUITY FUND**
MANAGEMENT DISCUSSION OF FUND PERFORMANCE
Investment Objective and Strategies

The Fund seeks to provide investors with significant long-term capital growth primarily through exposure to a well-diversified portfolio of large-capitalization, high-quality U.S. companies, while minimizing currency risk. To achieve the Fund's investment objective, the portfolio manager invests primarily in units of the Phillips, Hager & North U.S. Equity Fund ("the Underlying Fund"), as well as derivative instruments that are used to hedge against fluctuations in the value of the U.S. dollar relative to the Canadian dollar.

Risk

The Fund has multiple risks, which are similar to the risks of investing in the underlying fund(s). The Fund is suitable for investors who plan to hold their investments for the long term and can tolerate medium-to-high investment risk.

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

Effective June 30, 2017, RBC GAM adopted the risk classification methodology under National Instrument 81-102 – *Investment Funds* (the "new risk classification methodology"). Pursuant to the new risk classification methodology, certain funds' risk ratings were changed. RBC GAM reviews each fund's risk rating on an annual basis or if there has been a material change to a fund's investment objectives or investment strategies. Any changes to a fund's risk rating are the result of RBC GAM's annual review and the adoption of the new risk classification methodology.

Effective June 30, 2017, the Fund's risk rating changed from medium to medium-to-high.

Results of Operations

The Fund's net asset value fell to \$45 million as of December 31, 2017, from \$46 million at the end of 2016. The decrease was due to net redemptions, largely offset by investment returns.

Over the past year, the Fund's Series O units gained 23.5%, which outperformed the 21.2% rise in the benchmark. The Fund's return is after the deduction of expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

The U.S. stock market finished a strong year, on the back of solid returns from cyclical sectors. The strong overall performance was driven by the continuation of the synchronized global economic expansion, still accommodative global central-bank policy and low market interest rates and inflation. These factors drove better-than-expected financial performance for most U.S. companies. Tax reform also helped to lift investor sentiment late in the year.

During the year, the Fund's relative performance was boosted by the Information Technology and Financials sectors, while Consumer Staples had a negative impact.

The Fund benefited from strong security selection and an overweight allocation to the Information Technology sector during the year. Technology advancements such as artificial intelligence and electric vehicles have boosted demand for semiconductors. As a result, the Fund's overweight position in Lam Research aided relative returns.

Relative performance in the Financials sector was aided by security selection. U.S. financial companies, particularly U.S. banks, are poised to be large beneficiaries of U.S. tax legislation. Higher growth, rising interest rates and low credit provisions are potential catalysts for the banks.

Conversely, security selection in the Consumer Staples sector had a negative impact on relative returns during the year. The Fund's overweight position in Kraft Heinz weighed on the Fund as packaged-foods companies have been under pressure from tightening profit margins.

It is the policy of the Fund to maintain currency hedges at all times in order to neutralize exchange-rate movements between the U.S. dollar and the Canadian dollar. This policy had a positive impact on the Fund in 2017.

Recent Developments

While the portfolio manager's base case is for stocks to rise modestly over the next year, there are several scenarios that could lead to declines, including an escalation of tensions with North Korea, a potential policy mistake by the U.S. Federal Reserve (the "Fed") or protectionist trade moves by the Trump administration. The portfolio manager's indicators suggest that the odds of a recession remain fairly low, but with valuations at an eight-year high and the Fed intent on normalizing interest rates, the risks have increased and earnings growth remains key for return prospects.

**PHILLIPS, HAGER & NORTH CURRENCY-HEDGED
U.S. EQUITY FUND**
Related-Party Transactions
Manager and Portfolio Manager

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank and is the manager and principal portfolio manager of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund. Both the management fee and fixed administration fee are calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund.

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies. The Fund also maintains bank accounts and overdraft provisions with Royal Bank for which Royal Bank may earn a fee. Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series A, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and holds title to the Fund's property on behalf of unitholders. RBC IS is the custodian of the Fund and holds the assets of the Fund.

RBC IS earns a fee as the trustee and custodian, which is paid by the manager from the fixed administration fee paid by the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund. The registrars earn a fee, which is paid by the manager from the fixed administration fee paid by the Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Independent Review Committee with respect to one or more of the following transactions:

Related-Party Trading Activities

- (a) trades in securities of Royal Bank;
- (b) investments in the securities of issuers for which a related-party dealer acted as an underwriter during the distribution of such securities and the 60-day period following the conclusion of such distribution of the underwritten securities to the public;
- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal; and

Inter-Fund Trading

- (d) purchases or sales of securities of an issuer from or to another investment fund or managed account managed by RBC GAM.

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

**PHILLIPS, HAGER & NORTH CURRENCY-HEDGED
U.S. EQUITY FUND**
FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²					Net Assets End of Year/Period
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital	Total	
Series A												
Dec. 31, 2017	10.20	0.16	(0.21)	1.45	0.78	2.18	—	—	(0.55)	—	(0.55)	11.84
Dec. 31, 2016	9.81	0.18	(0.19)	0.94	(0.72)	0.21	—	—	—	—	—	10.20
Dec. 31, 2015	10.50	0.19	(0.21)	(0.24)	(0.44)	(0.70)	—	—	—	—	—	9.81
Dec. 31, 2014	9.66	0.17	(0.20)	2.89	(1.92)	0.94	—	(0.03)	—	—	(0.03)	10.50
Dec. 31, 2013	7.47	0.11	(0.18)	1.35	1.02	2.30	—	—	—	—	—	9.66
Advisor Series												
Dec. 31, 2017	10.20	0.16	(0.21)	1.45	0.81	2.21	—	—	(0.55)	—	(0.55)	11.84
Dec. 31, 2016	9.81	0.18	(0.19)	0.93	(0.92)	—	—	—	—	—	—	10.20
Dec. 31, 2015	10.50	0.19	(0.20)	(0.24)	(0.44)	(0.69)	—	—	—	—	—	9.81
Dec. 31, 2014	9.66	0.17	(0.20)	2.88	(1.91)	0.94	—	(0.04)	—	—	(0.04)	10.50
Dec. 31, 2013	7.47	0.12	(0.18)	1.39	1.06	2.39	—	—	—	—	—	9.66
Series D												
Dec. 31, 2017	10.15	0.16	(0.11)	1.45	0.74	2.24	—	(0.04)	(0.55)	—	(0.59)	11.84
Dec. 31, 2016	9.76	0.18	(0.11)	0.94	(0.30)	0.71	—	(0.08)	—	—	(0.08)	10.15
Dec. 31, 2015	10.44	0.19	(0.12)	(0.24)	(0.44)	(0.61)	—	(0.08)	—	—	(0.08)	9.76
Dec. 31, 2014	9.60	0.17	(0.12)	2.84	(1.88)	1.01	—	(0.12)	—	—	(0.12)	10.44
Dec. 31, 2013	7.41	0.10	(0.10)	1.21	0.92	2.13	—	(0.06)	—	—	(0.06)	9.60
Series F												
Dec. 31, 2017	10.24	0.16	(0.09)	1.47	0.79	2.33	—	(0.07)	(0.56)	—	(0.63)	11.94
Dec. 31, 2016	9.85	0.18	(0.08)	0.94	(0.02)	1.02	—	(0.11)	—	—	(0.11)	10.24
Dec. 31, 2015	10.53	0.19	(0.10)	(0.24)	(0.44)	(0.59)	—	(0.10)	—	—	(0.10)	9.85
Dec. 31, 2014	9.68	0.17	(0.10)	2.86	(1.89)	1.04	—	(0.15)	—	—	(0.15)	10.53
Dec. 31, 2013	7.47	0.11	(0.08)	1.28	0.97	2.28	—	(0.09)	—	—	(0.09)	9.68
Series O												
Dec. 31, 2017	10.28	0.16	(0.01)	1.47	0.80	2.42	—	(0.16)	(0.56)	—	(0.72)	11.97
Dec. 31, 2016	9.87	0.18	(0.01)	0.96	(0.31)	0.82	—	(0.18)	—	—	(0.18)	10.28
Dec. 31, 2015	10.55	0.19	(0.01)	(0.24)	(0.45)	(0.51)	—	(0.18)	—	—	(0.18)	9.87
Dec. 31, 2014	9.70	0.15	(0.01)	2.61	(1.73)	1.02	—	(0.23)	—	—	(0.23)	10.55
Dec. 31, 2013	7.48	0.10	(0.01)	1.21	0.92	2.22	—	(0.17)	—	—	(0.17)	9.70

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

**PHILLIPS, HAGER & NORTH CURRENCY-HEDGED
U.S. EQUITY FUND**
FINANCIAL HIGHLIGHTS (cont.)
Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series A							
Dec. 31, 2017	11.84	1 004	85	1.88	1.89	8.77	0.08
Dec. 31, 2016	10.20	888	87	1.96 ⁴	1.96	30.91	0.07
Dec. 31, 2015	9.81	1 128	115	2.05	2.06	24.20	0.08
Dec. 31, 2014	10.50	1 677	160	2.05	2.05	11.12	0.07
Dec. 31, 2013	9.66	1 759	182	2.07	2.07	51.30	0.09
Advisor Series							
Dec. 31, 2017	11.84	331	28	1.88	1.89	8.77	0.08
Dec. 31, 2016	10.20	398	39	1.99 ⁴	1.99	30.91	0.07
Dec. 31, 2015	9.81	3 153	321	2.05	2.06	24.20	0.08
Dec. 31, 2014	10.50	639	61	2.05	2.05	11.12	0.07
Dec. 31, 2013	9.66	668	69	2.07	2.07	51.30	0.09
Series D							
Dec. 31, 2017	11.84	8 239	696	1.04	1.05	8.77	0.08
Dec. 31, 2016	10.15	9 258	912	1.12 ⁴	1.12	30.91	0.07
Dec. 31, 2015	9.76	7 793	799	1.21	1.22	24.20	0.08
Dec. 31, 2014	10.44	7 896	756	1.21	1.21	11.12	0.07
Dec. 31, 2013	9.60	10 308	1 074	1.22	1.22	51.30	0.09
Series F							
Dec. 31, 2017	11.94	1 538	129	0.78	0.79	8.77	0.08
Dec. 31, 2016	10.24	1 400	137	0.86 ⁴	0.86	30.91	0.07
Dec. 31, 2015	9.85	761	77	0.95	0.95	24.20	0.08
Dec. 31, 2014	10.53	776	74	0.96	0.96	11.12	0.07
Dec. 31, 2013	9.68	926	96	0.97	0.97	51.30	0.09
Series O							
Dec. 31, 2017	11.97	33 735	2 818	0.13	0.14	8.77	0.08
Dec. 31, 2016	10.28	34 469	3 354	0.13	0.13	30.91	0.07
Dec. 31, 2015	9.87	27 937	2 831	0.13	0.14	24.20	0.08
Dec. 31, 2014	10.55	32 305	3 062	0.13	0.13	11.12	0.07
Dec. 31, 2013	9.70	78 801	8 124	0.13	0.13	51.30	0.09

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ Effective June 30, 2016, the management fees were changed in respect of Series A, Advisor Series, Series D and Series F units of the Fund. If the changes to the management fees would have been in effect throughout 2016, the adjusted MER for each series of the Fund would be: Series A – 1.88%, Advisor Series – 1.88%, Series D – 1.04% and Series F – 0.78%.

**PHILLIPS, HAGER & NORTH CURRENCY-HEDGED
U.S. EQUITY FUND**
FINANCIAL HIGHLIGHTS (cont.)
Management Fees

RBC GAM is the manager and portfolio manager of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series A	1.60%	63%	37%
Advisor Series	1.60%	63%	37%
Series D	0.85%	29%	71%
Series F	0.60%	—	100%

Series O – no management fees are paid by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

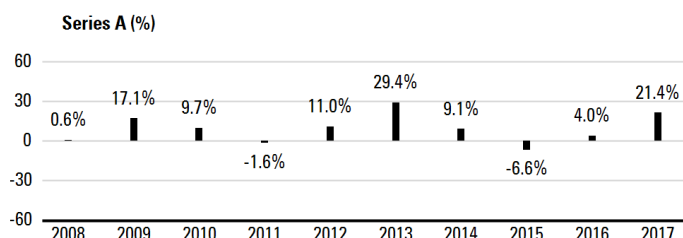
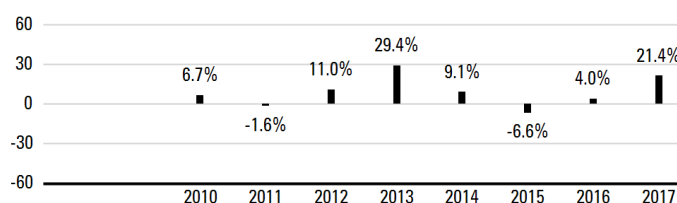
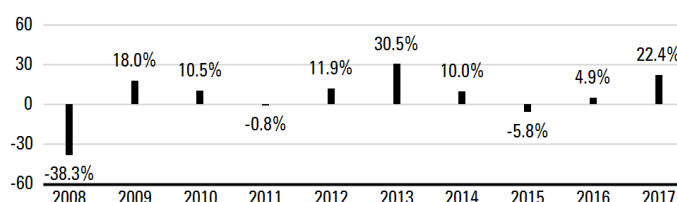
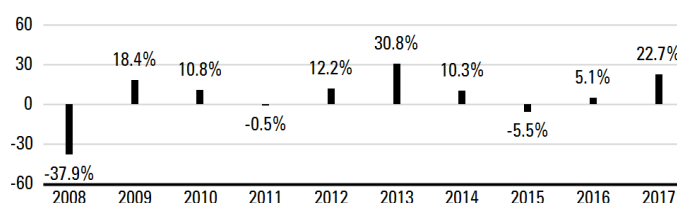
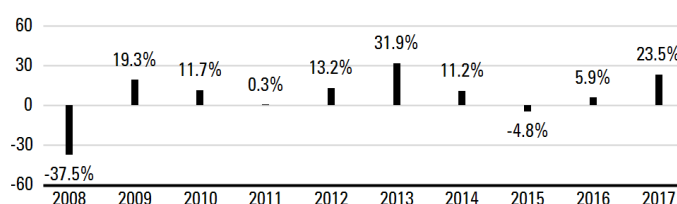
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.


Advisor Series (%)

Series D (%)

Series F (%)

Series O (%)


**PHILLIPS, HAGER & NORTH CURRENCY-HEDGED
U.S. EQUITY FUND**
PAST PERFORMANCE (cont.)
Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2017, compared with the following benchmark:

S&P 500 Total Return Index (hedged to CAD)

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	21.4	5.7	10.7	—	9.9
Benchmark	21.2	11.0	15.8	—	13.7
Advisor Series	21.4	5.7	10.7	—	9.7
Benchmark	21.2	11.0	15.8	—	14.4
Series D	22.4	6.5	11.7	4.5	—
Benchmark	21.2	11.0	15.8	7.8	—
Series F	22.7	6.8	11.9	4.8	—
Benchmark	21.2	11.0	15.8	7.8	—
Series O	23.5	7.6	12.8	5.6	—
Benchmark	21.2	11.0	15.8	7.8	—

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Advisor Series units have been available for sale to unitholders since October 2010, and Series A units since November 2008.

Inception dates are not provided for series that have been in existence for more than 10 years.

All outstanding Series C units were renamed Series A units effective June 30, 2016. Series D was known as Series A prior to November 17, 2008.

INDEX DESCRIPTION

S&P 500 Total Return Index (hedged to CAD) This index is a capitalization-weighted index measuring the performance of 500 widely held common stocks representing all major industries in the United States. The index gives investors a broad measure of the overall performance of the U.S. stock market and is hedged to Canadian dollars.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2017

Investment Mix

	% of Net Asset Value
Information Technology	22.8
Financials	15.1
Consumer Discretionary	13.6
Health Care	13.2
Industrials	10.9
Consumer Staples	7.8
Energy	6.5
Materials	2.2
Utilities	2.0
Telecommunication Services	1.6
Real Estate	1.4
Cash/Other	2.9

Top 25 Holdings*

	% of Net Asset Value
Apple Inc.	4.3
Microsoft Corp.	3.4
Alphabet Inc., Class C	3.3
Amazon.com, Inc.	3.2
Berkshire Hathaway Inc., Class B	2.2
Johnson & Johnson	1.9
JPMorgan Chase & Co.	1.9
Facebook Inc., Class A	1.8
Exxon Mobil Corp.	1.8
Bank of America Corp.	1.8
Cash & Cash Equivalents	1.6
Home Depot Inc.	1.6
Chevron Corp.	1.6
UnitedHealth Group Incorporated	1.5
Comcast Corp., Class A	1.3
General Dynamics Corp.	1.3
Intel Corp.	1.2
Union Pacific Corp.	1.2
Visa Inc., Class A	1.2
AbbVie Inc.	1.2
Cisco Systems Inc.	1.2
3M Co.	1.2
McDonald's Corp.	1.1
The Procter & Gamble Co.	1.1
Texas Instruments Inc.	1.1
Top 25 Holdings	45.0

* The Fund invests substantially all of its assets directly in the Phillips, Hager & North U.S. Equity Fund. The above are the Top 25 holdings of the Phillips, Hager & North U.S. Equity Fund.

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.rbcgam.com/funds, or by emailing us at info@phn.com.

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at www.sedar.com.

U.S. EQUITY FUND

PHILLIPS, HAGER & NORTH
U.S. GROWTH FUND

December 31, 2017

Portfolio Manager *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 8, 2018.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to provide investors with long-term capital growth by investing primarily in a well-diversified portfolio of shares of large-capitalization, high-quality North American companies, with an emphasis on U.S. stocks. Where applicable, Canadian and Mexican securities that possess particularly attractive fundamentals will be added to the portfolio. However, the Fund's assets are primarily allocated to U.S. securities. To achieve the Fund's investment objective, the portfolio manager invests in businesses that they believe have a sustainable competitive advantage, promising growth opportunities, a history of profitability, a solid financial position, and a capable management team.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

Effective June 30, 2017, RBC GAM adopted the risk classification methodology under National Instrument 81-102 – *Investment Funds* (the "new risk classification methodology"). Pursuant to the new risk classification methodology, certain funds' risk ratings were changed. RBC GAM reviews each fund's risk rating on an annual basis or if there has been a material change to a fund's investment objectives or investment strategies. Any changes to a fund's risk rating are the result of RBC GAM's annual review and the adoption of the new risk classification methodology.

There were no changes to the Fund's risk rating during the reporting period.

Results of Operations

The Fund's net asset value rose to \$111 million as of December 31, 2017, from \$110 million at the end of 2016. The change was due to investment performance, mostly offset by net redemptions.

Over the past year, the Fund's Series O units gained 16.1%, outperforming the 14.1% rise in the benchmark. The Fund's return is after the deduction of expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

The U.S. stock market finished a strong year, on the back of solid returns from cyclical sectors. The strong overall performance was driven by the continuation of the synchronized global economic expansion, still accommodative global central-bank policy and low

market interest rates and inflation. These factors drove better-than-expected financial performance for most U.S. companies. Tax reform also helped to lift investor sentiment late in the year.

During 2017, the Fund's relative performance was boosted by the Information Technology and Financials sectors, while Consumer Staples had a negative impact.

The Fund benefited from strong security selection and an overweight allocation to the Information Technology sector during the year. Technology advancements such as artificial intelligence and electric vehicles have boosted demand for semiconductors. As a result, the Fund's overweight position in Lam Research aided relative returns.

Relative performance in the Financials sectors was aided by security selection. U.S. financial companies, particularly U.S. banks, are poised to be large beneficiaries of U.S. tax legislation. Higher growth, rising interest rates and low credit provisions are potential catalysts for the banks.

Conversely, security selection in the Consumer Staples sector had a negative impact on relative returns during the year. The Fund's overweight position in Kraft Heinz weighed on the Fund as packaged-foods companies have been under pressure from tightening profit margins.

Recent Developments

While the portfolio manager's base case is for stocks to rise modestly over the next year, there are several scenarios that could lead to declines, including an escalation of tensions with North Korea, a potential policy mistake by the U.S. Federal Reserve (the "Fed") or protectionist trade moves by the Trump administration. The portfolio manager's indicators suggest that the odds of a recession remain fairly low, but with valuations at an eight-year high and the Fed intent on normalizing interest rates, the risks have increased and earnings growth remains key for return prospects.

Related-Party Transactions

Manager and Portfolio Manager

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank and is the manager and principal portfolio manager of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund. Both the management fee and fixed administration fee are calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund.

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Fund,

such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies. The Fund also maintains bank accounts and overdraft provisions with Royal Bank for which Royal Bank may earn a fee. Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series A, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and holds title to the Fund's property on behalf of unitholders. RBC IS is the custodian of the Fund and holds the assets of the Fund.

RBC IS earns a fee as the trustee and custodian, which is paid by the manager from the fixed administration fee paid by the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund. The registrars earn a fee, which is paid by the manager from the fixed administration fee paid by the Fund.

Brokers and Dealers

The Fund has established standard brokerage and dealing agreements at market rates with related parties. These related-party commissions were \$8,000 (2016 – \$0), or 9% (2016 – 0%) of the total transaction costs paid for this Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Independent Review Committee with respect to one or more of the following transactions:

Related-Party Trading Activities

- (a) trades in securities of Royal Bank;
- (b) investments in the securities of issuers for which a related-party dealer acted as an underwriter during the distribution of such securities and the 60-day period following the conclusion of such distribution of the underwritten securities to the public;
- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal; and

Inter-Fund Trading

- (d) purchases or sales of securities of an issuer from or to another investment fund or managed account managed by RBC GAM.

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²					Net Assets End of Year/Period
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital	Total	
Series A												
Dec. 31, 2017	22.22	0.35	(0.44)	2.62	0.37	2.90	—	—	—	—	—	25.35
Dec. 31, 2016	21.82	0.47	(0.40)	0.06	(0.45)	(0.32)	—	(0.08)	—	—	(0.08)	22.22
Dec. 31, 2015	18.79	0.28	(0.41)	5.91	(2.66)	3.12	—	—	—	—	—	21.82
Dec. 31, 2014	16.08	0.19	(0.34)	2.34	0.49	2.68	—	—	—	—	—	18.79
Dec. 31, 2013	11.62	0.18	(0.27)	1.21	3.35	4.47	—	—	—	—	—	16.07
Advisor Series												
Dec. 31, 2017	22.22	0.35	(0.44)	2.62	0.74	3.27	—	—	—	—	—	25.35
Dec. 31, 2016	21.82	0.47	(0.39)	0.06	0.46	0.60	—	(0.08)	—	—	(0.08)	22.22
Dec. 31, 2015	18.78	0.28	(0.41)	5.88	(2.64)	3.11	—	—	—	—	—	21.82
Dec. 31, 2014	16.08	0.19	(0.34)	2.34	0.49	2.68	—	—	—	—	—	18.78
Dec. 31, 2013	11.62	0.17	(0.28)	1.17	3.26	4.32	—	—	—	—	—	16.08
Series D												
Dec. 31, 2017	22.85	0.36	(0.25)	2.70	0.61	3.42	—	(0.13)	—	—	(0.13)	26.16
Dec. 31, 2016	22.44	0.48	(0.23)	0.07	0.19	0.51	—	(0.27)	—	—	(0.27)	22.85
Dec. 31, 2015	19.18	0.28	(0.25)	6.06	(2.72)	3.37	—	(0.02)	—	—	(0.02)	22.44
Dec. 31, 2014	16.29	0.20	(0.21)	2.38	0.50	2.87	—	—	—	—	—	19.18
Dec. 31, 2013	11.70	0.18	(0.16)	1.21	3.36	4.59	—	(0.03)	—	—	(0.03)	16.29
Series F												
Dec. 31, 2017	23.10	0.37	(0.19)	2.74	0.49	3.41	—	(0.20)	—	—	(0.20)	26.45
Dec. 31, 2016	22.70	0.49	(0.19)	0.07	1.40	1.77	—	(0.34)	—	—	(0.34)	23.10
Dec. 31, 2015	19.41	0.29	(0.21)	6.14	(2.76)	3.46	—	(0.07)	—	—	(0.07)	22.70
Dec. 31, 2014	16.47	0.20	(0.17)	2.41	0.50	2.94	—	(0.03)	—	—	(0.03)	19.41
Dec. 31, 2013	11.83	0.18	(0.13)	1.23	3.42	4.70	—	(0.07)	—	—	(0.07)	16.47
Series O												
Dec. 31, 2017	23.35	0.37	(0.02)	2.77	0.68	3.80	(0.01)	(0.38)	—	—	(0.39)	26.73
Dec. 31, 2016	22.93	0.50	(0.02)	0.07	0.05	0.60	—	(0.51)	—	—	(0.51)	23.35
Dec. 31, 2015	19.60	0.29	(0.02)	6.21	(2.79)	3.69	—	(0.27)	—	—	(0.27)	22.93
Dec. 31, 2014	16.63	0.20	(0.01)	2.45	0.51	3.15	—	(0.20)	—	—	(0.20)	19.60
Dec. 31, 2013	11.95	0.18	(0.01)	1.26	3.48	4.91	—	(0.21)	—	—	(0.21)	16.63

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series A							
Dec. 31, 2017	25.35	2 064	81	1.84	1.84	82.34	0.08
Dec. 31, 2016	22.22	1 532	69	1.91 ⁴	1.91	66.58	0.07
Dec. 31, 2015	21.82	2 289	105	1.98	1.98	124.55	0.09
Dec. 31, 2014	18.79	2 171	116	1.97	1.97	42.63	0.06
Dec. 31, 2013	16.08	2 007	125	2.00	2.00	18.69	0.05
Advisor Series							
Dec. 31, 2017	25.35	277	11	1.84	1.84	82.34	0.08
Dec. 31, 2016	22.22	190	9	1.91 ⁴	1.91	66.58	0.07
Dec. 31, 2015	21.82	166	8	1.98	1.98	124.55	0.09
Dec. 31, 2014	18.78	281	15	1.97	1.97	42.63	0.06
Dec. 31, 2013	16.08	274	17	2.00	2.00	18.69	0.05
Series D							
Dec. 31, 2017	26.16	41 137	1 573	1.02	1.02	82.34	0.08
Dec. 31, 2016	22.85	39 450	1 726	1.10 ⁴	1.10	66.58	0.07
Dec. 31, 2015	22.44	43 208	1 925	1.18	1.18	124.55	0.09
Dec. 31, 2014	19.18	37 146	1 936	1.18	1.18	42.63	0.06
Dec. 31, 2013	16.29	34 628	2 125	1.18	1.18	18.69	0.05
Series F							
Dec. 31, 2017	26.45	2 622	99	0.76	0.76	82.34	0.08
Dec. 31, 2016	23.10	2 268	98	0.86 ⁴	0.86	66.58	0.07
Dec. 31, 2015	22.70	764	34	0.95	0.95	124.55	0.09
Dec. 31, 2014	19.41	536	28	0.95	0.95	42.63	0.06
Dec. 31, 2013	16.47	430	26	0.94	0.94	18.69	0.05
Series O							
Dec. 31, 2017	26.73	65 327	2 444	0.08	0.08	82.34	0.08
Dec. 31, 2016	23.35	66 230	2 836	0.08	0.08	66.58	0.07
Dec. 31, 2015	22.93	77 521	3 381	0.08	0.08	124.55	0.09
Dec. 31, 2014	19.60	81 811	4 174	0.08	0.08	42.63	0.06
Dec. 31, 2013	16.63	75 114	4 516	0.08	0.08	18.69	0.05

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ Effective June 30, 2016, the management fees were changed in respect of Series A, Advisor Series, Series D and Series F units of the Fund. If the changes to the management fees would have been in effect throughout 2016, the adjusted MER for each series of the Fund would be: Series A – 1.82%, Advisor Series – 1.82%, Series D – 1.02% and Series F – 0.78%.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio manager of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series A	1.60%	63%	37%
Advisor Series	1.60%	63%	37%
Series D	0.85%	29%	71%
Series F	0.60%	—	100%

Series O – no management fees are paid by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

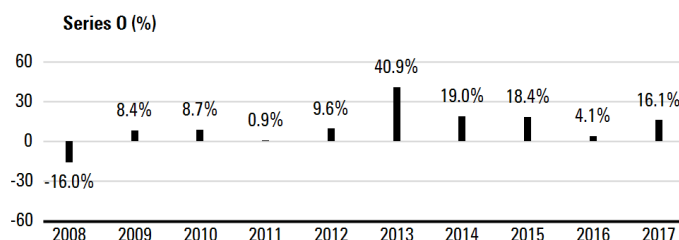
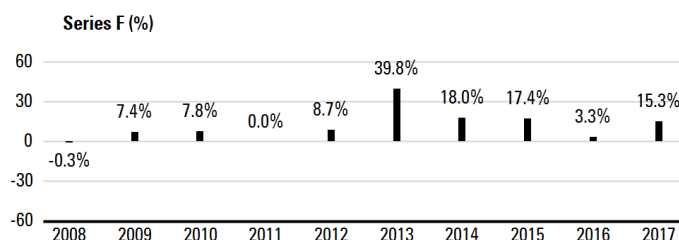
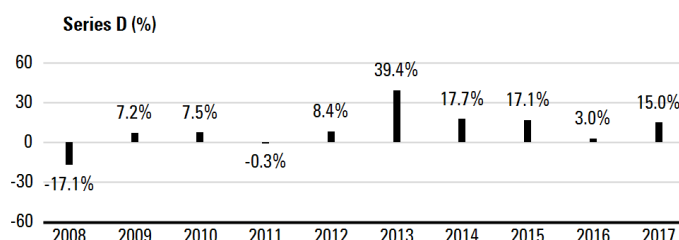
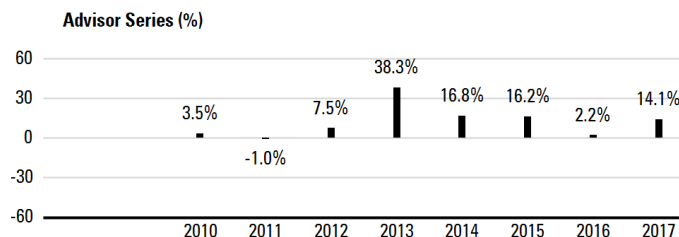
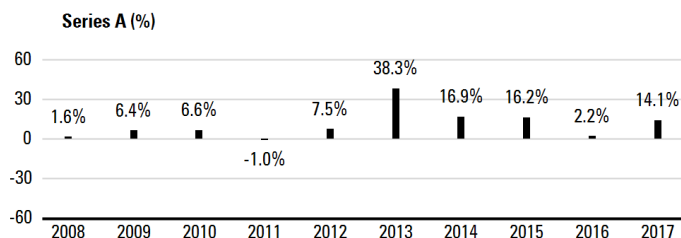
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



PAST PERFORMANCE (cont.)

Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2017, compared with the following benchmark:

S&P 500 Total Return Index (CAD)

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	14.1	10.6	17.0	—	11.5
Benchmark	14.1	14.4	21.4	—	15.4
Advisor Series	14.1	10.6	17.0	—	13.1
Benchmark	14.1	14.4	21.4	—	17.8
Series D	15.0	11.5	17.9	8.9	—
Benchmark	14.1	14.4	21.4	11.1	—
Series F	15.3	11.8	18.2	—	12.3
Benchmark	14.1	14.4	21.4	—	14.6
Series O	16.1	12.7	19.1	10.1	—
Benchmark	14.1	14.4	21.4	11.1	—

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Advisor Series units have been available for sale to unitholders since October 2010, Series A units since November 2008, and Series F units since October 2008.

Inception dates are not provided for series that have been in existence for more than 10 years.

All outstanding Series C units were renamed Series A units effective June 30, 2016. Series D was known as Series A prior to November 17, 2008.

INDEX DESCRIPTION

S&P 500 Total Return Index (CAD) This index is a capitalization-weighted index measuring the Canadian dollar performance of 500 widely held common stocks representing all major industries in the United States. The index gives investors a broad measure of the overall performance of the U.S. stock market.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2017

Investment Mix

	% of Net Asset Value
Information Technology	23.2
Financials	15.3
Consumer Discretionary	13.8
Health Care	13.5
Industrials	11.2
Consumer Staples	8.3
Energy	6.7
Materials	2.3
Utilities	2.0
Telecommunication Services	1.6
Real Estate	1.4
Cash/Other	0.7

Top 25 Holdings

	% of Net Asset Value
Apple Inc.	4.3
Microsoft Corp.	3.4
Alphabet Inc., Class C	3.3
Amazon.com, Inc.	3.2
Berkshire Hathaway Inc., Class B	2.3
Johnson & Johnson	2.0
JPMorgan Chase & Co.	1.9
Facebook Inc., Class A	1.9
Exxon Mobil Corp.	1.9
Bank of America Corp.	1.8
Chevron Corp.	1.6
Home Depot Inc.	1.6
UnitedHealth Group Incorporated	1.5
Comcast Corp., Class A	1.3
General Dynamics Corp.	1.3
Union Pacific Corp.	1.2
AbbVie Inc.	1.2
Visa Inc., Class A	1.2
Intel Corp.	1.2
3M Co.	1.2
Cisco Systems Inc.	1.2
The Procter & Gamble Co.	1.1
Texas Instruments Inc.	1.1
McDonald's Corp.	1.1
T-Mobile US Inc.	1.1
Top 25 Holdings	44.9

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.rbcgam.com/funds, or by emailing us at info@phn.com.

INTERNATIONAL EQUITY FUND

PHILLIPS, HAGER & NORTH
OVERSEAS EQUITY FUND

December 31, 2017

Portfolio Manager RBC Global Asset Management Inc. ("RBC GAM")

Sub-Advisor: RBC Global Asset Management (UK) Limited

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 8, 2018.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE**Investment Objective and Strategies**

The Fund seeks to provide investors with long-term capital growth by investing in common stocks of companies located in countries outside North America, including countries in Europe, as well as Japan, Australia and the rest of the Far East. To achieve the Fund's investment objective, the sub-advisor invests in companies that are attractively valued, possess sound fundamentals and have a strong market position.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

Effective June 30, 2017, RBC GAM adopted the risk classification methodology under National Instrument 81-102 – *Investment Funds* (the "new risk classification methodology"). Pursuant to the new risk classification methodology, certain funds' risk ratings were changed. RBC GAM reviews each fund's risk rating on an annual basis or if there has been a material change to a fund's investment objectives or investment strategies. Any changes to a fund's risk rating are the result of RBC GAM's annual review and the adoption of the new risk classification methodology.

There were no changes to the Fund's risk rating during the reporting period.

Results of Operations

The Fund's net asset value rose to \$1.2 billion as of December 31, 2017, from \$1.0 billion at the end of 2016. The increase was due to investment returns, partially offset by net redemptions.

Over the past year, the Fund's Series O units gained 27.8%, which outperformed the 16.8% rise in the benchmark. The Fund's return is after the deduction of expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

Global equity markets extended the years-long rally in 2017, with gains recorded in every month of the year. The Fund outperformed based on individual stock selection in an overall environment of positive equity markets. Reasons offered for the performance included strong growth across the world for the first time since the 2008 financial crisis and the pro-growth orientation of President Trump, who in December 2017 signed tax reform into law in what was the first meaningful piece of legislation to emerge since he became president in early 2017.

Top contributors to returns included South African media company Naspers, which benefited from its investment in the Chinese internet stock Tencent; Nidec, a Japanese manufacturer of precision motors, which benefited from the continued electrification of cars and developments in robotics; and HDFC Bank of India.

Stocks that had a negative impact on returns included Astellas Pharma, which reported disappointing financial results; and Anheuser-Busch InBev, a global brewer hurt by a fall in demand for beer in the U.S., the company's largest market. U.S. supply disruptions blamed on summer storms also hurt the company's business.

Recent Developments

The global economy seems to be finally recovering from the damage inflicted by the financial crisis, and the sub-advisor believes that new industries and technologies continue to emerge, offering interesting investment opportunities. There is also cause for concern. Growth is by no means universally distributed among people, and populist politics seem to be strengthening. Household debt levels are also a concern in many countries, and plans by central banks to push interest rates higher could worsen this problem.

Effective October 2, 2017, administration fees were reduced as follows: from 0.08% to 0.02% for Series O units.

Related-Party Transactions***Manager and Portfolio Manager***

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank and is the manager and principal portfolio manager of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund. Both the management fee and fixed administration fee are calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund.

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Sub-Advisor

RBC Global Asset Management (UK) Limited is the sub-advisor and provides investment advice for the Fund. The sub-advisor earns a fee which is calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund. The sub-advisor is paid by the manager from the management fee paid by the Fund.

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series A, Advisor Series and Series D units.

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RBC Investor Services Trust ("RBC IS") is the trustee and holds title to the Fund's property on behalf of unitholders. RBC IS is the custodian of the Fund and holds the assets of the Fund.

RBC IS earns a fee as the trustee and custodian, which is paid by the manager from the fixed administration fee paid by the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund. The registrars earn a fee, which is paid by the manager from the fixed administration fee paid by the Fund.

Brokers and Dealers

The Fund has established standard brokerage and dealing agreements at market rates with related parties. These related-party commissions were \$64,000 (2016 – \$92,000), or 3% (2016 – 5%) of the total transaction costs paid for this Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Independent Review Committee with respect to one or more of the following transactions:

Related-Party Trading Activities

- (a) trades in securities of Royal Bank;
- (b) investments in the securities of issuers for which a related-party dealer acted as an underwriter during the distribution of such securities and the 60-day period following the conclusion of such distribution of the underwritten securities to the public;
- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal; and

Inter-Fund Trading

- (d) purchases or sales of securities of an issuer from or to another investment fund or managed account managed by RBC GAM.

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²					Net Assets End of Year/Period
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital	Total	
Series A												
Dec. 31, 2017	12.55	0.31	(0.30)	0.61	2.55	3.17	—	—	—	—	—	15.71
Dec. 31, 2016	13.81	0.38	(0.28)	0.14	(1.57)	(1.33)	—	(0.11)	—	—	(0.11)	12.55
Dec. 31, 2015	11.44	0.30	(0.29)	0.52	1.85	2.38	—	—	—	—	—	13.81
Dec. 31, 2014	11.21	0.40	(0.26)	2.22	(1.90)	0.46	—	(0.21)	—	—	(0.21)	11.44
Dec. 31, 2013	9.15	0.30	(0.22)	0.47	1.55	2.10	—	(0.09)	—	—	(0.09)	11.21
Advisor Series												
Dec. 31, 2017	12.55	0.31	(0.30)	0.61	2.35	2.97	—	—	—	—	—	15.71
Dec. 31, 2016	13.81	0.38	(0.28)	0.14	(1.59)	(1.35)	—	(0.11)	—	—	(0.11)	12.55
Dec. 31, 2015	11.44	0.30	(0.29)	0.52	1.85	2.38	—	—	—	—	—	13.81
Dec. 31, 2014	11.21	0.40	(0.26)	2.22	(1.90)	0.46	—	(0.21)	—	—	(0.21)	11.44
Dec. 31, 2013	9.15	0.29	(0.22)	0.46	1.54	2.07	—	(0.09)	—	—	(0.09)	11.21
Series D												
Dec. 31, 2017	12.46	0.31	(0.17)	0.60	2.54	3.28	—	(0.13)	—	—	(0.13)	15.61
Dec. 31, 2016	13.72	0.38	(0.16)	0.14	(1.42)	(1.06)	—	(0.22)	—	—	(0.22)	12.46
Dec. 31, 2015	11.35	0.30	(0.18)	0.52	1.84	2.48	—	(0.11)	—	—	(0.11)	13.72
Dec. 31, 2014	11.13	0.40	(0.15)	2.21	(1.90)	0.56	—	(0.31)	—	—	(0.31)	11.35
Dec. 31, 2013	9.08	0.29	(0.13)	0.46	1.54	2.16	—	(0.18)	—	—	(0.18)	11.13
Series F												
Dec. 31, 2017	11.88	0.30	(0.14)	0.58	2.38	3.12	—	(0.16)	—	—	(0.16)	14.89
Dec. 31, 2016	13.08	0.36	(0.13)	0.14	(0.89)	(0.52)	—	(0.23)	—	—	(0.23)	11.88
Dec. 31, 2015	10.83	0.28	(0.14)	0.49	1.75	2.38	—	(0.14)	—	—	(0.14)	13.08
Dec. 31, 2014	10.61	0.38	(0.12)	2.10	(1.80)	0.56	—	(0.32)	—	—	(0.32)	10.83
Dec. 31, 2013	8.66	0.28	(0.11)	0.45	1.48	2.10	—	(0.20)	—	—	(0.20)	10.61
Series O												
Dec. 31, 2017	12.72	0.32	(0.01)	0.62	2.61	3.54	—	(0.33)	—	—	(0.33)	15.92
Dec. 31, 2016	13.99	0.39	(0.01)	0.15	(1.31)	(0.78)	—	(0.36)	—	—	(0.36)	12.72
Dec. 31, 2015	11.58	0.31	(0.01)	0.53	1.89	2.72	—	(0.29)	—	—	(0.29)	13.99
Dec. 31, 2014	11.35	0.40	(0.01)	2.24	(1.93)	0.70	—	(0.47)	—	—	(0.47)	11.58
Dec. 31, 2013	9.27	0.30	(0.01)	0.48	1.59	2.36	—	(0.32)	—	—	(0.32)	11.35

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series A							
Dec. 31, 2017	15.71	3 758	239	2.09	2.09	37.60	0.21
Dec. 31, 2016	12.55	2 888	230	2.16 ⁴	2.16	33.49	0.19
Dec. 31, 2015	13.81	3 664	265	2.22	2.22	35.42	0.17
Dec. 31, 2014	11.44	3 100	271	2.22	2.22	146.70	0.42
Dec. 31, 2013	11.21	3 406	304	2.22	2.22	87.75	0.39
Advisor Series							
Dec. 31, 2017	15.71	1 817	116	2.10	2.10	37.60	0.21
Dec. 31, 2016	12.55	1 013	81	2.16 ⁴	2.16	33.49	0.19
Dec. 31, 2015	13.81	1 401	101	2.22	2.22	35.42	0.17
Dec. 31, 2014	11.44	1 017	89	2.22	2.22	146.70	0.42
Dec. 31, 2013	11.21	1 143	102	2.22	2.22	87.75	0.39
Series D							
Dec. 31, 2017	15.61	212 598	13 618	1.23	1.23	37.60	0.21
Dec. 31, 2016	12.46	165 905	13 316	1.29 ⁴	1.29	33.49	0.19
Dec. 31, 2015	13.72	186 721	13 614	1.34	1.34	35.42	0.17
Dec. 31, 2014	11.35	149 793	13 194	1.34	1.34	146.70	0.42
Dec. 31, 2013	11.13	159 035	14 294	1.35	1.35	87.75	0.39
Series F							
Dec. 31, 2017	14.89	15 288	1 027	1.01	1.01	37.60	0.21
Dec. 31, 2016	11.88	9 150	770	1.06 ⁴	1.06	33.49	0.19
Dec. 31, 2015	13.08	5 569	426	1.13	1.13	35.42	0.17
Dec. 31, 2014	10.83	3 371	311	1.13	1.13	146.70	0.42
Dec. 31, 2013	10.61	4 178	394	1.13	1.13	87.75	0.39
Series O							
Dec. 31, 2017	15.92	981 663	61 661	0.07⁵	0.07	37.60	0.21
Dec. 31, 2016	12.72	835 297	65 680	0.09	0.09	33.49	0.19
Dec. 31, 2015	13.99	778 286	55 634	0.09	0.09	35.42	0.17
Dec. 31, 2014	11.58	653 668	56 427	0.09	0.09	146.70	0.42
Dec. 31, 2013	11.35	868 969	76 537	0.09	0.09	87.75	0.39

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ Effective June 30, 2016, the management fees were changed in respect of Series A, Advisor Series, Series D and Series F units of the Fund. If the changes to the management fees would have been in effect throughout 2016, the adjusted MER for each series of the Fund would be: Series A – 2.10%, Advisor Series – 2.10%, Series D – 1.23% and Series F – 1.01%.

⁵ Effective October 2, 2017, the administration fees were changed in respect of Series O units of the Fund. If the changes to the administration fees would have been in effect throughout 2017, the adjusted MER for each series of the Fund would be: Series O – 0.02%.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio manager of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series A	1.75%	57%	43%
Advisor Series	1.75%	57%	43%
Series D	1.00%	25%	75%
Series F	0.75%	—	100%

Series O – no management fees are paid by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

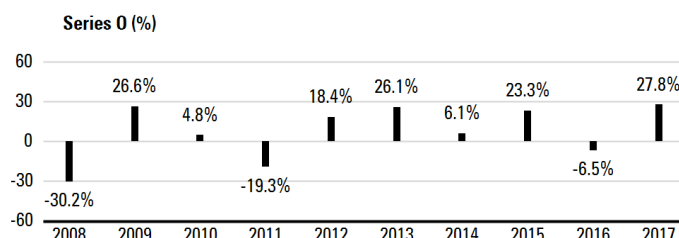
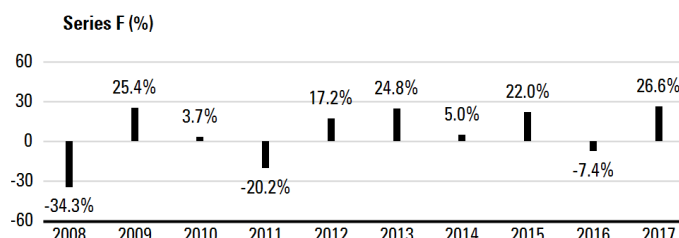
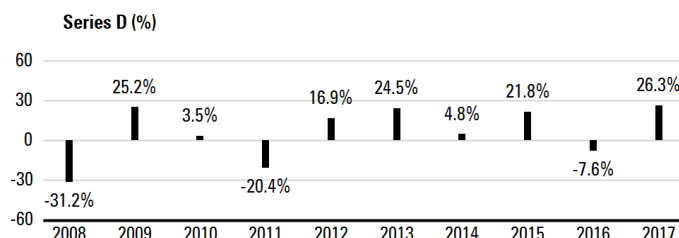
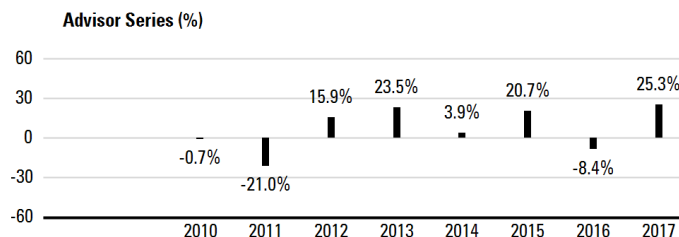
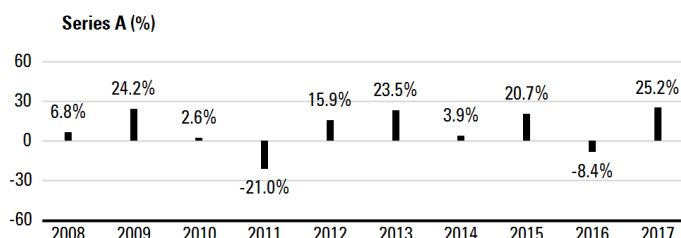
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



PAST PERFORMANCE (cont.)**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2017, compared with the following benchmark:

MSCI EAFE Total Return Net Index (CAD)

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	25.2	11.5	12.2	—	9.1
Benchmark	16.8	10.7	13.0	—	9.6
Advisor Series	25.3	11.5	12.2	—	6.9
Benchmark	16.8	10.7	13.0	—	9.5
Series D	26.3	12.4	13.2	4.4	—
Benchmark	16.8	10.7	13.0	4.4	—
Series F	26.6	12.7	13.4	4.2	—
Benchmark	16.8	10.7	13.0	4.4	—
Series O	27.8	13.8	14.5	5.7	—
Benchmark	16.8	10.7	13.0	4.4	—

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Advisor Series units have been available for sale to unitholders since October 2010, and Series A units since November 2008.

Inception dates are not provided for series that have been in existence for more than 10 years.

All outstanding Series C units were renamed Series A units effective June 30, 2016. Series D was known as Series A prior to November 17, 2008.

INDEX DESCRIPTION

MSCI EAFE Total Return Net Index (CAD) This index is a broad measure of the Canadian dollar performance of stocks from developed equity markets covering countries in Europe, Australasia and the Far East. The net total return index reinvests dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2017

Investment Mix – Sectors

	% of Net Asset Value
Financials	24.2
Industrials	18.1
Health Care	12.7
Consumer Discretionary	11.3
Materials	9.6
Consumer Staples	7.9
Information Technology	7.8
Energy	4.9
Utilities	1.2
Telecommunication Services	1.1
Cash/Other	1.2

Investment Mix – Countries/Regions

	% of Net Asset Value
Europe ex-United Kingdom Equities	36.9
Pacific Rim ex-Japan Equities	19.9
United Kingdom Equities	19.4
Japan Equities	18.0
Middle East & Africa Equities	4.6
Cash/Other	1.2

Top 25 Holdings

	% of Net Asset Value
Nidec Corp.	5.3
Deutsche Post AG	5.3
Naspers Ltd.	4.6
Taiwan Semiconductor Manufacturing Co. Ltd. ADR	4.4
AIA Group Ltd.	4.3
Komatsu Ltd.	4.3
InterContinental Hotels Group Plc.	4.2
Roche Holdings AG Genusschein	4.0
Anheuser-Busch InBev S.A./N.V.	4.0
Unilever Plc.	3.9
St. James's Place Plc.	3.8
Astellas Pharma Inc.	3.5
ING Groep N.V.	3.5
Rio Tinto Plc.	3.3
Oil Search Ltd.	2.6
UBS Group AG	2.6
Symex Corp.	2.6
Linde AG	2.6
Paddy Power Betfair Plc.	2.5
Novo Nordisk A/S	2.5
Partners Group Holding AG	2.5
HDFC Bank Ltd.	2.4
Royal Dutch Shell Plc., B Shares	2.3
HDFC Bank Ltd. ADR	2.2
ASML Holding N.V.	2.2
Top 25 Holdings	85.4

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.rbcgam.com/funds, or by emailing us at info@phn.com.

INTERNATIONAL EQUITY FUND

**PHILLIPS, HAGER & NORTH
 CURRENCY-HEDGED OVERSEAS
 EQUITY FUND**

 December 31, 2017

Portfolio Manager *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 8, 2018.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank").

PHILLIPS, HAGER & NORTH CURRENCY-HEDGED OVERSEAS EQUITY FUND**MANAGEMENT DISCUSSION OF FUND PERFORMANCE****Investment Objective and Strategies**

The Fund seeks to provide investors with long-term capital growth primarily through exposure to a diversified portfolio of companies located in countries outside North America, including countries in Europe, as well as Japan, Australia and the rest of the Far East, while minimizing fluctuations in the value of foreign currencies relative to the Canadian dollar. To achieve the Fund's investment objective, the portfolio manager invests primarily in units of the Phillips, Hager & North Overseas Equity Fund (the "Underlying Fund"), as well as derivative instruments that are used to hedge against fluctuations in the value of foreign currencies relative to the Canadian dollar.

Risk

The Fund has multiple risks, which are similar to the risks of investing in the underlying fund(s). The Fund is suitable for investors who plan to hold their investments for the long term and can tolerate medium investment risk.

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

Effective June 30, 2017, RBC GAM adopted the risk classification methodology under National Instrument 81-102 – *Investment Funds* (the "new risk classification methodology"). Pursuant to the new risk classification methodology, certain funds' risk ratings were changed. RBC GAM reviews each fund's risk rating on an annual basis or if there has been a material change to a fund's investment objectives or investment strategies. Any changes to a fund's risk rating are the result of RBC GAM's annual review and the adoption of the new risk classification methodology.

There were no changes to the Fund's risk rating during the reporting period.

Results of Operations

The Fund's net asset value rose to \$192 million as of December 31, 2017, from \$165 million at the end of 2016. The increase was due to investment returns, partially offset by net redemptions.

Over the past year, the Fund's Series O units gained 27.0%, which outperformed the 16.5% rise in the benchmark. The Fund's return is after the deduction of expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

Global equity markets extended the years-long rally in 2017, with gains recorded in every month of the year. The Fund outperformed based on individual stock selection in an overall environment of positive equity markets. Reasons offered for the performance included strong growth across the world for the first time since the 2008 financial crisis and the pro-growth orientation of President Trump, who in December 2017 signed tax reform into law in what was the first meaningful piece of legislation to emerge since he became president in early 2017.

Top contributors to returns included South African media company Naspers, which benefited from its investment in the Chinese internet stock Tencent; Nidec, a Japanese manufacturer of precision motors, which benefited from the continued electrification of cars and developments in robotics; and HDFC Bank of India.

Stocks that had a negative impact on returns included Astellas Pharma, which reported disappointing financial results; and Anheuser-Busch InBev, a global brewer hurt by a fall in demand for beer in the U.S., the company's largest market. U.S. supply disruptions blamed on summer storms also hurt the company's business.

The Fund's currency-hedging mandate had a slightly negative impact on returns in 2017.

Recent Developments

The global economy seems to be finally recovering from the damage inflicted by the financial crisis, and the portfolio manager believes that new industries and technologies continue to emerge, offering interesting investment opportunities. There is also cause for concern. Growth is by no means universally distributed among people, and populist politics seem to be strengthening. Household debt levels are also a concern in many countries, and plans by central banks to push interest rates higher could worsen this problem.

Effective October 2, 2017, administration fees were reduced as follows: from 0.14% to 0.02% for Series O units.

Related-Party Transactions**Manager and Portfolio Manager**

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank and is the manager and principal portfolio manager of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund. Both the management fee and fixed administration fee are calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund.

**PHILLIPS, HAGER & NORTH CURRENCY-HEDGED
OVERSEAS EQUITY FUND**

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies. The Fund also maintains bank accounts and overdraft provisions with Royal Bank for which Royal Bank may earn a fee. Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series A, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and holds title to the Fund's property on behalf of unitholders. RBC IS is the custodian of the Fund and holds the assets of the Fund.

RBC IS earns a fee as the trustee and custodian, which is paid by the manager from the fixed administration fee paid by the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund. The registrars earn a fee, which is paid by the manager from the fixed administration fee paid by the Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Independent Review Committee with respect to one or more of the following transactions:

Related-Party Trading Activities

- (a) trades in securities of Royal Bank;
- (b) investments in the securities of issuers for which a related-party dealer acted as an underwriter during the distribution of such securities and the 60-day period following the conclusion of such distribution of the underwritten securities to the public;
- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal; and

Inter-Fund Trading

- (d) purchases or sales of securities of an issuer from or to another investment fund or managed account managed by RBC GAM.

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

**PHILLIPS, HAGER & NORTH CURRENCY-HEDGED
OVERSEAS EQUITY FUND**
FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²					Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital			
Series A													
Dec. 31, 2017	9.38	0.23	(0.22)	0.54	1.75	2.30	—	—	—	—	—	11.69	
Dec. 31, 2016	9.73	0.25	(0.20)	0.53	(0.95)	(0.37)	—	(0.06)	—	—	(0.06)	9.38	
Dec. 31, 2015	9.10	0.22	(0.22)	(0.42)	0.95	0.53	—	—	—	—	—	9.73	
Dec. 31, 2014	8.89	0.30	(0.20)	0.84	(0.55)	0.39	—	(0.15)	(0.09)	—	(0.24)	9.10	
Dec. 31, 2013	7.59	0.20	(0.18)	0.09	1.22	1.33	—	(0.06)	—	—	(0.06)	8.89	
Advisor Series													
Dec. 31, 2017	9.39	0.23	(0.22)	0.54	1.75	2.30	—	—	—	—	—	11.69	
Dec. 31, 2016	9.73	0.25	(0.20)	0.53	(0.76)	(0.18)	—	(0.06)	—	—	(0.06)	9.39	
Dec. 31, 2015	9.10	0.21	(0.22)	(0.41)	0.93	0.51	—	—	—	—	—	9.73	
Dec. 31, 2014	8.89	0.30	(0.20)	0.84	(0.55)	0.39	—	(0.15)	(0.09)	—	(0.24)	9.10	
Dec. 31, 2013	7.59	0.20	(0.18)	0.09	1.21	1.32	—	(0.06)	—	—	(0.06)	8.89	
Series D													
Dec. 31, 2017	9.13	0.23	(0.13)	0.53	1.70	2.33	—	(0.09)	—	—	(0.09)	11.38	
Dec. 31, 2016	9.46	0.25	(0.12)	0.52	(0.66)	(0.01)	—	(0.14)	—	—	(0.14)	9.13	
Dec. 31, 2015	8.84	0.21	(0.13)	(0.41)	0.93	0.60	—	(0.08)	—	—	(0.08)	9.46	
Dec. 31, 2014	8.64	0.29	(0.12)	0.82	(0.54)	0.45	—	(0.22)	(0.09)	—	(0.31)	8.84	
Dec. 31, 2013	7.37	0.19	(0.11)	0.09	1.16	1.33	—	(0.13)	—	—	(0.13)	8.64	
Series F													
Dec. 31, 2017	9.22	0.23	(0.11)	0.54	1.64	2.30	—	(0.11)	—	—	(0.11)	11.49	
Dec. 31, 2016	9.55	0.25	(0.10)	0.52	(0.75)	(0.08)	—	(0.16)	—	—	(0.16)	9.22	
Dec. 31, 2015	8.93	0.21	(0.11)	(0.41)	0.93	0.62	—	(0.10)	—	—	(0.10)	9.55	
Dec. 31, 2014	8.72	0.29	(0.10)	0.82	(0.54)	0.47	—	(0.25)	(0.09)	—	(0.34)	8.93	
Dec. 31, 2013	7.44	0.20	(0.09)	0.09	1.22	1.42	—	(0.15)	—	—	(0.15)	8.72	
Series O													
Dec. 31, 2017	9.26	0.23	(0.01)	0.54	1.74	2.50	—	(0.23)	—	—	(0.23)	11.53	
Dec. 31, 2016	9.59	0.25	(0.01)	0.53	(0.87)	(0.10)	—	(0.25)	—	—	(0.25)	9.26	
Dec. 31, 2015	8.96	0.21	(0.02)	(0.41)	0.94	0.72	—	(0.19)	—	—	(0.19)	9.59	
Dec. 31, 2014	8.76	0.30	(0.01)	0.82	(0.54)	0.57	—	(0.34)	(0.09)	—	(0.43)	8.96	
Dec. 31, 2013	7.47	0.20	(0.01)	0.09	1.21	1.49	—	(0.23)	—	—	(0.23)	8.76	

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

**PHILLIPS, HAGER & NORTH CURRENCY-HEDGED
OVERSEAS EQUITY FUND**
FINANCIAL HIGHLIGHTS (cont.)
Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series A							
Dec. 31, 2017	11.69	818	70	2.20	2.20	7.99	0.21
Dec. 31, 2016	9.38	570	61	2.28 ⁴	2.28	18.67	0.18
Dec. 31, 2015	9.73	733	75	2.30	2.30	20.40	0.17
Dec. 31, 2014	9.10	606	67	2.31	2.31	11.71	0.42
Dec. 31, 2013	8.89	690	78	2.31	2.31	15.31	0.40
Advisor Series							
Dec. 31, 2017	11.69	1 491	128	2.19	2.19	7.99	0.21
Dec. 31, 2016	9.39	1 675	178	2.28 ⁴	2.28	18.67	0.18
Dec. 31, 2015	9.73	1 675	172	2.30	2.30	20.40	0.17
Dec. 31, 2014	9.10	111	12	2.30	2.30	11.71	0.42
Dec. 31, 2013	8.89	176	20	2.31	2.31	15.31	0.40
Series D							
Dec. 31, 2017	11.38	14 618	1 285	1.30	1.30	7.99	0.21
Dec. 31, 2016	9.13	13 610	1 490	1.37 ⁴	1.37	18.67	0.18
Dec. 31, 2015	9.46	11 977	1 266	1.43	1.43	20.40	0.17
Dec. 31, 2014	8.84	11 692	1 322	1.44	1.44	11.71	0.42
Dec. 31, 2013	8.64	14 496	1 678	1.45	1.45	15.31	0.40
Series F							
Dec. 31, 2017	11.49	9 589	835	1.10	1.10	7.99	0.21
Dec. 31, 2016	9.22	2 956	321	1.16 ⁴	1.16	18.67	0.18
Dec. 31, 2015	9.55	3 268	342	1.19	1.19	20.40	0.17
Dec. 31, 2014	8.93	700	78	1.20	1.20	11.71	0.42
Dec. 31, 2013	8.72	1 042	119	1.18	1.18	15.31	0.40
Series O							
Dec. 31, 2017	11.53	165 173	14 326	0.19⁵	0.19	7.99	0.21
Dec. 31, 2016	9.26	146 277	15 799	0.24	0.24	18.67	0.18
Dec. 31, 2015	9.59	153 811	16 036	0.24	0.24	20.40	0.17
Dec. 31, 2014	8.96	121 375	13 542	0.25	0.25	11.71	0.42
Dec. 31, 2013	8.76	179 288	20 476	0.24	0.24	15.31	0.40

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ Effective June 30, 2016, the management fees were changed in respect of Series A, Advisor Series, Series D and Series F units of the Fund. If the changes to the management fees would have been in effect throughout 2016, the adjusted MER for each series of the Fund would be: Series A – 2.22%, Advisor Series – 2.22%, Series D – 1.32% and Series F – 1.11%.

⁵ Effective October 2, 2017, the administration fees were changed in respect of Series O units of the Fund. If the changes to the administration fees would have been in effect throughout 2017, the adjusted MER for each series of the Fund would be: Series O – 0.09%.

**PHILLIPS, HAGER & NORTH CURRENCY-HEDGED
OVERSEAS EQUITY FUND**
FINANCIAL HIGHLIGHTS (cont.)
Management Fees

RBC GAM is the manager and portfolio manager of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series A	1.75%	57%	43%
Advisor Series	1.75%	57%	43%
Series D	1.00%	25%	75%
Series F	0.75%	—	100%

Series O – no management fees are paid by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

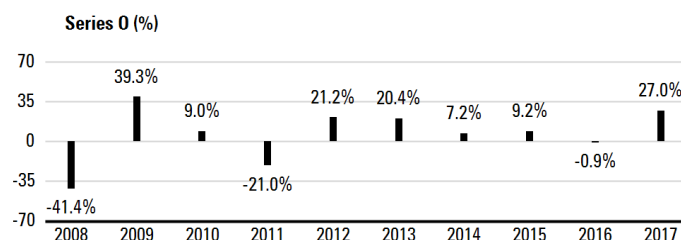
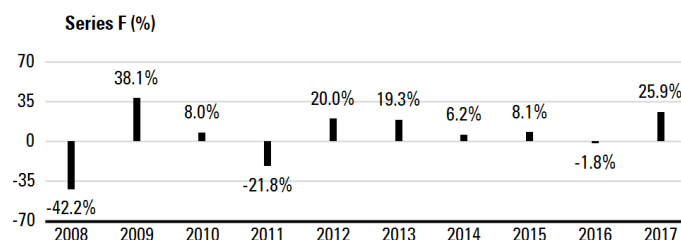
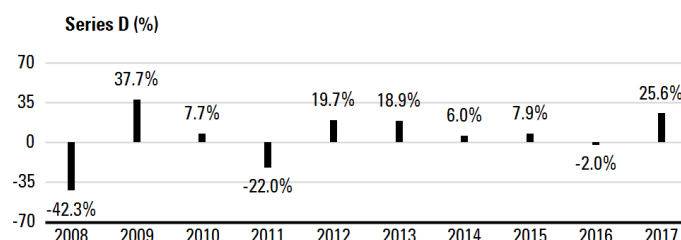
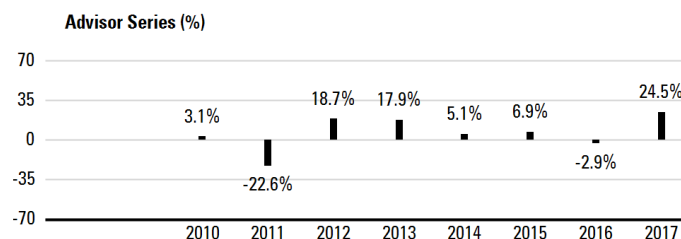
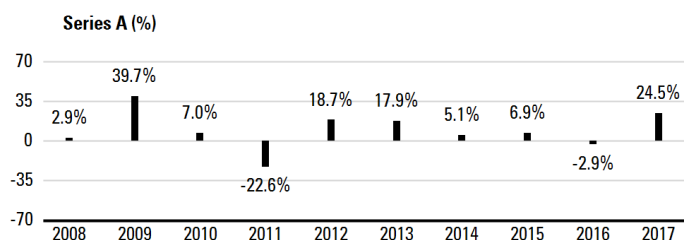
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



**PHILLIPS, HAGER & NORTH CURRENCY-HEDGED
OVERSEAS EQUITY FUND**
PAST PERFORMANCE (cont.)
Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2017, compared with the following benchmark:

MSCI EAFE Total Return Net Index (hedged to CAD)

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	24.5	8.9	9.9	—	9.4
Benchmark	16.5	9.0	12.0	—	9.8
Advisor Series	24.5	8.9	9.9	—	6.0
Benchmark	16.5	9.0	12.0	—	9.3
Series D	25.6	9.9	10.8	2.9	—
Benchmark	16.5	9.0	12.0	3.2	—
Series F	25.9	10.2	11.1	3.2	—
Benchmark	16.5	9.0	12.0	3.2	—
Series O	27.0	11.2	12.1	4.2	—
Benchmark	16.5	9.0	12.0	3.2	—

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Advisor Series units have been available for sale to unitholders since October 2010, and Series A units since November 2008.

Inception dates are not provided for series that have been in existence for more than 10 years.

All outstanding Series C units were renamed Series A units effective June 30, 2016. Series D was known as Series A prior to November 17, 2008.

INDEX DESCRIPTION

MSCI EAFE Total Return Net Index (hedged to CAD) This index is a broad measure of the Canadian dollar performance of stocks from developed equity markets covering countries in Europe, Australasia and the Far East. The net total return index reinvests dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties. The index is hedged to Canadian dollars.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2017

Investment Mix – Sectors

	% of Net Asset Value
Financials	24.3
Industrials	18.2
Health Care	12.8
Consumer Discretionary	11.4
Materials	9.7
Consumer Staples	7.9
Information Technology	7.8
Energy	4.9
Utilities	1.2
Telecommunication Services	1.1
Cash/Other	0.7

Investment Mix – Countries/Regions

	% of Net Asset Value
Europe ex-United Kingdom Equities	37.1
Pacific Rim ex-Japan Equities	20.0
United Kingdom Equities	19.5
Japan Equities	18.1
Middle East & Africa Equities	4.6
Cash/Other	0.7

Top 25 Holdings*

	% of Net Asset Value
Nidec Corp.	5.3
Deutsche Post AG	5.3
Naspers Ltd.	4.6
Taiwan Semiconductor Manufacturing Co. Ltd. ADR	4.4
AIA Group Ltd.	4.3
Komatsu Ltd.	4.3
InterContinental Hotels Group Plc.	4.2
Roche Holdings AG Genusscheine	4.0
Anheuser-Busch InBev S.A./N.V.	4.0
Unilever Plc.	3.9
St. James's Place Plc.	3.8
Astellas Pharma Inc.	3.5
ING Groep N.V.	3.5
Rio Tinto Plc.	3.3
Oil Search Ltd.	2.6
UBS Group AG	2.6
Sysmex Corp.	2.6
Linde AG	2.6
Paddy Power Betfair Plc.	2.5
Novo Nordisk A/S	2.5
Partners Group Holding AG	2.5
HDFC Bank Ltd.	2.4
Royal Dutch Shell Plc., B Shares	2.3
HDFC Bank Ltd. ADR	2.2
ASML Holding N.V.	2.2
Top 25 Holdings	85.4

* The Fund invests substantially all of its assets directly in the Phillips, Hager & North Overseas Equity Fund. The above are the Top 25 holdings of the Phillips, Hager & North Overseas Equity Fund.

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly, and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.rbcgam.com/funds, or by emailing us at info@phn.com.

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at www.sedar.com.

GLOBAL EQUITY FUND

PHILLIPS, HAGER & NORTH
GLOBAL EQUITY FUND

 December 31, 2017
Portfolio Manager *RBC Global Asset Management Inc. ("RBC GAM")*

Sub-Advisor: RBC Global Asset Management (UK) Limited

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 8, 2018.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to provide investors with long-term capital growth by investing primarily in common stocks of companies in the world's largest industrialized countries outside Canada, including the United States and countries in Europe, as well as Japan, Australia and the rest of the Far East. The portfolio manager invests primarily in companies that they believe have sound fundamentals, a strong market position, a history of profitability, a capable management team, and attractive valuations.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

Effective June 30, 2017, RBC GAM adopted the risk classification methodology under National Instrument 81-102 – *Investment Funds* (the "new risk classification methodology"). Pursuant to the new risk classification methodology, certain funds' risk ratings were changed. RBC GAM reviews each fund's risk rating on an annual basis or if there has been a material change to a fund's investment objectives or investment strategies. Any changes to a fund's risk rating are the result of RBC GAM's annual review and the adoption of the new risk classification methodology.

There were no changes to the Fund's risk rating during the reporting period.

Results of Operations

The Fund's net asset value rose to \$251 million as of December 31, 2017, from \$160 million at the end of 2016. The increase was due to a combination of net inflows and investment returns.

Over the past year, the Fund's Series O units gained 26.8%, which outperformed the 14.4% rise in the benchmark. The Fund's return is after the deduction of expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

Global equity markets extended the years-long rally in 2017, with gains recorded in every month of the year. The Fund outperformed based on individual stock selection in an overall environment of positive equity markets. Reasons offered for the performance included strong growth across the world for the first time since the 2008 financial crisis and the pro-growth orientation of President Trump, who in December 2017 signed tax reform into law in what was the first meaningful piece of legislation to emerge since he became president in early 2017.

Top contributors to returns included Kite Pharma, which was acquired by U.S. rival Gilead Sciences at a substantial premium; South African media company Naspers, whose shares rose on the back of its holding in Chinese internet stock Tencent; and U.S. cosmetics maker Estée Lauder, which delivered impressive results driven by Asia.

Stocks that had a negative impact on returns included First Republic Bank, which is experiencing higher costs amid increased competition; and U.S. discount retailer TJX Cos., which fell in concert with many retailers on concern about competition from the internet.

Recent Developments

The global economy seems to be finally recovering from the damage inflicted by the financial crisis, and the sub-advisor believes that new industries and technologies continue to emerge, offering interesting investment opportunities. There is also cause for concern. Growth is by no means universally distributed among people, and populist politics seem to be strengthening. Household debt levels are also a concern in many countries, and plans by central banks to push interest rates higher could worsen this problem.

Effective October 2, 2017, administration fees were reduced as follows: from 0.06% to 0.02% for Series O units.

Related-Party Transactions

Manager and Portfolio Manager

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank and is the manager and principal portfolio manager of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund. Both the management fee and fixed administration fee are calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund.

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies. The Fund also maintains bank accounts and overdraft provisions with Royal Bank for which Royal Bank may earn a fee. Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

Sub-Advisor

RBC Global Asset Management (UK) Limited is the sub-advisor and provides investment advice for the Fund. The sub-advisor earns a fee which is calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund. The sub-advisor is paid by the manager from the management fee paid by the Fund.

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series A, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and holds title to the Fund's property on behalf of unitholders. RBC IS is the custodian of the Fund and holds the assets of the Fund.

RBC IS earns a fee as the trustee and custodian, which is paid by the manager from the fixed administration fee paid by the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund. The registrars earn a fee, which is paid by the manager from the fixed administration fee paid by the Fund.

Brokers and Dealers

The Fund has established standard brokerage and dealing agreements at market rates with related parties. These related-party commissions were \$0 (2016 – \$2,000), or 0% (2016 – 1%) of the total transaction costs paid for this Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Independent Review Committee with respect to one or more of the following transactions:

Related-Party Trading Activities

- (a) trades in securities of Royal Bank;
- (b) investments in the securities of issuers for which a related-party dealer acted as an underwriter during the distribution of such securities and the 60-day period following the conclusion of such distribution of the underwritten securities to the public;
- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal; and

Inter-Fund Trading

- (d) purchases or sales of securities of an issuer from or to another investment fund or managed account managed by RBC GAM.

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²					Net Assets End of Year/Period
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital	Total	
Series A												
Dec. 31, 2017	14.36	0.25	(0.33)	0.94	2.59	3.45	—	—	—	—	—	17.85
Dec. 31, 2016	14.47	0.27	(0.28)	0.71	(0.81)	(0.11)	—	—	—	—	—	14.36
Dec. 31, 2015	11.82	0.23	(0.28)	0.73	1.95	2.63	—	—	—	—	—	14.47
Dec. 31, 2014	10.25	0.06	(0.22)	3.01	(1.28)	1.57	—	—	—	—	—	11.82
Dec. 31, 2013	7.90	0.24	(0.19)	0.53	1.88	2.46	—	(0.07)	—	—	(0.07)	10.25
Advisor Series												
Dec. 31, 2017	14.36	0.25	(0.33)	0.94	2.49	3.35	—	—	—	—	—	17.84
Dec. 31, 2016	14.47	0.27	(0.28)	0.70	(0.94)	(0.25)	—	—	—	—	—	14.36
Dec. 31, 2015	11.82	0.23	(0.28)	0.73	1.94	2.62	—	—	—	—	—	14.47
Dec. 31, 2014	10.25	0.06	(0.22)	3.00	(1.27)	1.57	—	—	—	—	—	11.82
Dec. 31, 2013	7.90	0.23	(0.19)	0.52	1.86	2.42	—	(0.07)	—	—	(0.07)	10.25
Series D												
Dec. 31, 2017	14.67	0.26	(0.20)	0.97	2.69	3.72	—	(0.04)	—	—	(0.04)	18.35
Dec. 31, 2016	14.69	0.28	(0.17)	0.72	(0.81)	0.02	—	(0.04)	—	—	(0.04)	14.67
Dec. 31, 2015	11.94	0.23	(0.16)	0.74	1.98	2.79	—	(0.06)	—	—	(0.06)	14.69
Dec. 31, 2014	10.27	0.06	(0.13)	3.02	(1.28)	1.67	—	—	—	—	—	11.94
Dec. 31, 2013	7.92	0.23	(0.11)	0.52	1.86	2.50	—	(0.15)	—	—	(0.15)	10.27
Series F												
Dec. 31, 2017	14.86	0.26	(0.16)	0.97	2.59	3.66	—	(0.08)	—	—	(0.08)	18.59
Dec. 31, 2016	14.87	0.27	(0.14)	0.71	(0.58)	0.26	—	(0.07)	—	—	(0.07)	14.86
Dec. 31, 2015	12.10	0.24	(0.13)	0.75	1.99	2.85	—	(0.10)	—	—	(0.10)	14.87
Dec. 31, 2014	10.38	0.06	(0.11)	3.08	(1.31)	1.72	—	—	—	—	—	12.10
Dec. 31, 2013	8.00	0.24	(0.09)	0.53	1.91	2.59	—	(0.17)	—	—	(0.17)	10.38
Series O												
Dec. 31, 2017	15.06	0.27	(0.01)	1.00	2.73	3.99	(0.01)	(0.25)	—	—	(0.26)	18.83
Dec. 31, 2016	15.08	0.28	(0.01)	0.72	(0.85)	0.14	—	(0.21)	—	—	(0.21)	15.06
Dec. 31, 2015	12.26	0.24	(0.01)	0.77	2.04	3.04	—	(0.23)	—	—	(0.23)	15.08
Dec. 31, 2014	10.43	0.06	(0.01)	3.08	(1.31)	1.82	—	—	—	—	—	12.26
Dec. 31, 2013	8.04	0.23	(0.01)	0.52	1.87	2.61	—	(0.27)	—	—	(0.27)	10.43

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series A							
Dec. 31, 2017	17.85	10 179	570	2.06	2.06	27.74	0.16
Dec. 31, 2016	14.36	6 953	484	2.06	2.06	47.90	0.20
Dec. 31, 2015	14.47	7 246	501	2.06	2.06	38.75	0.17
Dec. 31, 2014	11.82	3 640	308	2.09	2.09	131.52	0.28
Dec. 31, 2013	10.25	2 921	285	2.12	2.12	15.07	0.24
Advisor Series							
Dec. 31, 2017	17.84	6 386	358	2.06	2.06	27.74	0.16
Dec. 31, 2016	14.36	3 353	233	2.06	2.06	47.90	0.20
Dec. 31, 2015	14.47	3 686	255	2.06	2.06	38.75	0.17
Dec. 31, 2014	11.82	879	74	2.09	2.09	131.52	0.28
Dec. 31, 2013	10.25	637	62	2.12	2.12	15.07	0.24
Series D							
Dec. 31, 2017	18.35	82 019	4 470	1.19	1.19	27.74	0.16
Dec. 31, 2016	14.67	52 931	3 609	1.19	1.19	47.90	0.20
Dec. 31, 2015	14.69	52 874	3 600	1.19	1.19	38.75	0.17
Dec. 31, 2014	11.94	36 737	3 076	1.22	1.22	131.52	0.28
Dec. 31, 2013	10.27	34 029	3 312	1.26	1.26	15.07	0.24
Series F							
Dec. 31, 2017	18.59	16 903	909	0.94	0.94	27.74	0.16
Dec. 31, 2016	14.86	7 292	491	0.95	0.95	47.90	0.20
Dec. 31, 2015	14.87	2 536	171	0.95	0.95	38.75	0.17
Dec. 31, 2014	12.10	435	36	0.97	0.97	131.52	0.28
Dec. 31, 2013	10.38	207	20	1.01	1.01	15.07	0.24
Series O							
Dec. 31, 2017	18.83	135 981	7 220	0.05⁴	0.05	27.74	0.16
Dec. 31, 2016	15.06	89 103	5 917	0.07	0.07	47.90	0.20
Dec. 31, 2015	15.08	54 566	3 619	0.07	0.07	38.75	0.17
Dec. 31, 2014	12.26	48 282	3 938	0.10	0.10	131.52	0.28
Dec. 31, 2013	10.43	58 479	5 605	0.12	0.12	15.07	0.24

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ Effective October 2, 2017, the administration fees were changed in respect of Series O units of the Fund. If the changes to the administration fees would have been in effect throughout 2017, the adjusted MER for each series of the Fund would be: Series O – 0.02%.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio manager of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series A	1.75%	57%	43%
Advisor Series	1.75%	57%	43%
Series D	1.00%	25%	75%
Series F	0.75%	—	100%

Series O – no management fees are paid by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

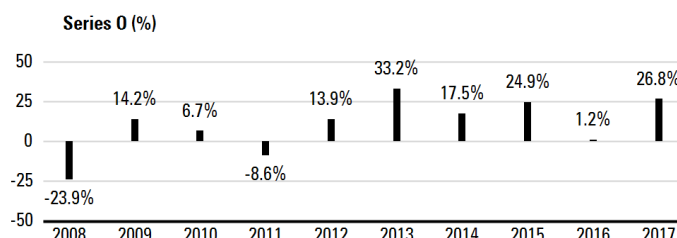
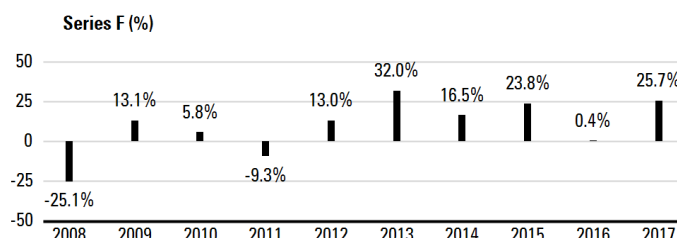
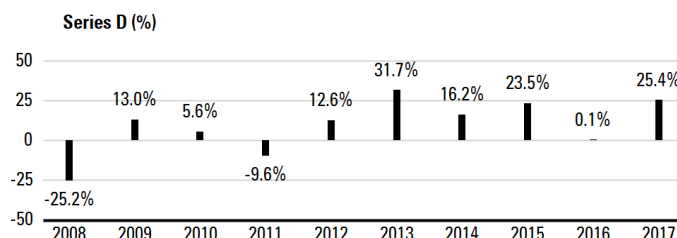
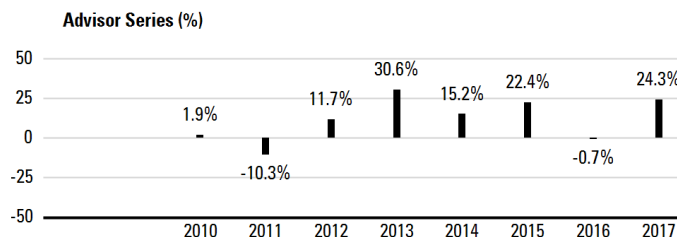
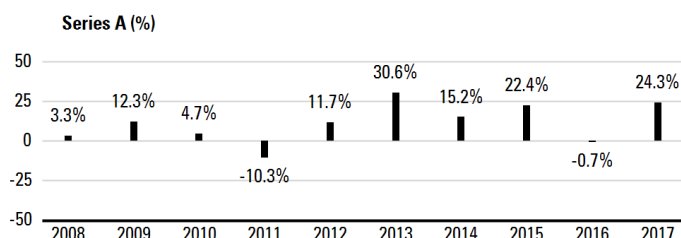
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



PAST PERFORMANCE (cont.)

Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2017 compared with the following benchmark:

MSCI World Total Return Net Index (CAD)

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	24.3	14.7	17.8	—	11.8
Benchmark	14.4	12.2	16.9	—	12.7
Advisor Series	24.3	14.7	17.8	—	12.4
Benchmark	14.4	12.2	16.9	—	13.3
Series D	25.4	15.7	18.9	8.0	—
Benchmark	14.4	12.2	16.9	7.6	—
Series F	25.7	16.0	19.2	8.2	—
Benchmark	14.4	12.2	16.9	7.6	—
Series O	26.8	17.0	20.2	9.2	—
Benchmark	14.4	12.2	16.9	7.6	—

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Advisor Series units have been available for sale to unitholders since October 2010, and Series A units since November 2008.

Inception dates are not provided for series that have been in existence for more than 10 years.

All outstanding Series C units were renamed Series A units effective June 30, 2016. Series D was known as Series A prior to November 17, 2008.

INDEX DESCRIPTION

MSCI World Total Return Net Index (CAD) This index is the capitalization-weighted index measuring the Canadian dollar performance of selected companies listed on stock exchanges in countries around the world. The net total return index reinvests dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2017

Investment Mix – Sectors

	% of Net Asset Value
Financials	21.4
Information Technology	16.7
Consumer Discretionary	15.4
Health Care	12.5
Consumer Staples	11.7
Industrials	10.6
Energy	5.7
Materials	1.8
Utilities	1.5
Cash/Other	2.7

Investment Mix – Countries/Regions

	% of Net Asset Value
United States Equities	56.5
Europe ex-United Kingdom Equities	17.1
Pacific Rim ex-Japan Equities	9.7
United Kingdom Equities	6.7
Japan Equities	4.3
Middle East & Africa Equities	3.0
Cash/Other	2.7

Top 25 Holdings

	% of Net Asset Value
EOG Resources Inc.	4.8
UnitedHealth Group Incorporated	4.6
Roche Holdings AG Genusscheine	4.6
Estée Lauder Companies Inc., Class A	4.5
Nidec Corp.	4.3
HDFC Bank Ltd. ADR	4.2
Fortive Corp.	3.8
TJX Companies Inc.	3.7
Deutsche Post AG	3.5
Intuit Inc.	3.5
First Republic Bank	3.5
Danaher Corp.	3.3
SVB Financial Group	3.3
Unilever N.V.	3.2
InterContinental Hotels Group Plc.	3.1
Blackstone Group LP	3.1
Taiwan Semiconductor Manufacturing Co. Ltd. ADR	3.0
Naspers Ltd.	2.9
Anheuser-Busch InBev S.A./N.V.	2.9
Paddy Power Betfair Plc.	2.9
Microsoft Corp.	2.8
Alphabet Inc., Class A	2.8
Amazon.com, Inc.	2.7
Cash & Cash Equivalents	2.7
Gartner Inc.	2.6
Top 25 Holdings	86.3

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.rbcgam.com/funds, or by emailing us at info@phn.com.

TARGET DATE FUND

**PHILLIPS, HAGER & NORTH
LIFETIME 2015 FUND**

 December 31, 2017

Portfolio Manager RBC Global Asset Management Inc. ("RBC GAM")

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 8, 2018.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to achieve a balance of income and long-term capital growth relative to its target retirement date of 2015 by investing primarily in investment funds that hold equity, fixed income, income trust and money market securities and exchange traded funds (“ETFs”), or by investing directly in such securities.

The Fund invests primarily in underlying funds. The Fund seeks to achieve its investment strategies by investing in three broad asset classes: equities, fixed income, and Canadian or U.S. ETFs, either directly or indirectly through underlying funds. ETFs purchased by the Fund will initially be limited to those that track the investment performance of broad based real estate investment trust indices but may include other ETFs where permitted by applicable securities laws. At all times, the Fund will use a dynamic asset mix or glide path that adjusts the asset mix of the Fund on a quarterly basis relative to its target date.

Risk

The Fund has multiple risks, which are similar to the risks of investing in the underlying funds. The Fund is suitable for investors who plan to hold their investments for the medium-to-long term and can tolerate low investment risk.

There were no significant changes to the investment objective and strategies that affected the Fund’s overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

Effective June 30, 2017, RBC GAM adopted the risk classification methodology under National Instrument 81-102 – *Investment Funds* (the “new risk classification methodology”). Pursuant to the new risk classification methodology, certain funds’ risk ratings were changed. RBC GAM reviews each fund’s risk rating on an annual basis or if there has been a material change to a fund’s investment objectives or investment strategies. Any changes to a fund’s risk rating are the result of RBC GAM’s annual review and the adoption of the new risk classification methodology.

Effective June 30, 2017, the Fund’s risk rating changed from low-to-medium to low.

Results of Operations

The Fund’s net asset value fell to \$8 million as of December 31, 2017, from \$10 million at the end of 2016. The decrease was due mainly to net redemptions.

Over the past year, the Fund’s Series O units gained 4.3%. The fixed-income benchmark rose 2.5% and the equity benchmark rose 9.1%. The Fund’s return is after the deduction of expenses, while benchmark

and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

Global economic growth surged to the highest in seven years in 2017 thanks to a confluence of factors. The expansion was highly synchronized, encompassing the bulk of developed and many emerging-market nations. In the U.S., measures of confidence and risk appetite were robust, benefiting from the macroeconomic strength and helping to sustain it. Economic growth in the Eurozone and Japan continued to impress with a persistence that would have been hard to fathom several years ago. Canadian growth was unexpectedly brisk, prompting the Bank of Canada to raise interest rates twice during the year, even as investors worried about Canadians’ high household debts and the future of the North American Free Trade Agreement.

Bonds issued by national governments ended 2017 with modest returns as inflation remained subdued and most major central banks extended bond-buying programs aimed at holding down interest rates. Yields moved generally lower in the first eight months of the year due to escalating tension between the U.S. and North Korea and continued skepticism about the Trump administration’s ability to enact its pro-growth policies. However, government-bond yields reversed higher in September as investors began anticipating efforts by central banks to scale back monetary stimulus and the likelihood of U.S. tax cuts increased. Canadian bonds underperformed U.S. fixed income given the faster-than-expected domestic growth. The Fund’s fixed-income holdings all had a positive impact on performance, with the largest contributor being the Phillips, Hager & North Bond Fund.

Stock markets rose in most of the world during 2017, driven by the tailwinds of rising corporate profits and the continued environment of relatively low global interest rates. Among the strongest-performing indexes were Japan, which benefited from the impact of structural reforms, and emerging markets, bolstered by a handful of technology stocks having large market capitalizations. In the U.S., equities were aided by expectations that the Republican-controlled Congress would work with President Trump to pass corporate and personal-income tax cuts, a hope that came to fruition at year end. European markets in local-currency terms and Canadian indexes had more modest gains because their indexes had minimal exposure to the strong returns delivered by the Information Technology sector. The Fund’s equity holdings contributed positively to overall performance, led by the RBC QUBE Low Volatility Global Equity Fund.

Recent Developments

The portfolio manager expects bond yields to move higher at a gradual pace, supported by the improving economy and monetary tightening. Meanwhile, earnings have been coming through and analysts are optimistic that the trend can persist. U.S. corporate-tax cuts could provide an additional boost to profits. Against this backdrop, equities continue to offer modest total-return potential.

Related-Party Transactions

Manager and Portfolio Manager

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank and is the manager and principal portfolio manager of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund. Both the management fee and fixed administration fee are calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund.

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies. The Fund also maintains bank accounts and overdraft provisions with Royal Bank for which Royal Bank may earn a fee. Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and holds title to the Fund's property on behalf of unitholders. RBC IS is the custodian of the Fund and holds the assets of the Fund.

RBC IS earns a fee as the trustee and custodian, which is paid by the manager from the fixed administration fee paid by the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund. The registrars earn a fee, which is paid by the manager from the fixed administration fee paid by the Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Independent Review Committee with respect to one or more of the following transactions:

Related-Party Trading Activities

- (a) trades in securities of Royal Bank;
- (b) investments in the securities of issuers for which a related-party dealer acted as an underwriter during the distribution of such securities and the 60-day period following the conclusion of such distribution of the underwritten securities to the public;
- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal; and

Inter-Fund Trading

- (d) purchases or sales of securities of an issuer from or to another investment fund or managed account managed by RBC GAM.

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²					Net Assets End of Year/Period
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital	Total	
Series D												
Dec. 31, 2017	11.16	1.01	(0.10)	0.21	(0.73)	0.39	(0.15)	(0.11)	(0.27)	(0.73)	(1.26)	10.28
Dec. 31, 2016	10.96	0.29	(0.10)	0.18	0.19	0.56	(0.09)	(0.09)	(0.19)	—	(0.37)	11.16
Dec. 31, 2015	11.19	0.31	(0.11)	0.65	(0.22)	0.63	(0.13)	(0.09)	(0.65)	—	(0.87)	10.96
Dec. 31, 2014	10.65	0.39	(0.11)	0.46	0.45	1.19	(0.17)	(0.09)	(0.46)	—	(0.72)	11.19
Dec. 31, 2013	10.62	0.31	(0.11)	0.27	0.03	0.50	(0.12)	(0.06)	(0.31)	—	(0.49)	10.65
Series O												
Dec. 31, 2017	11.12	1.01	(0.01)	0.21	(0.75)	0.46	(0.16)	(0.12)	(0.27)	(0.81)	(1.36)	10.23
Dec. 31, 2016	10.92	0.29	(0.01)	0.19	0.18	0.65	(0.14)	(0.14)	(0.19)	—	(0.47)	11.12
Dec. 31, 2015	11.16	0.32	(0.01)	0.65	(0.22)	0.74	(0.19)	(0.13)	(0.65)	—	(0.97)	10.92
Dec. 31, 2014	10.63	0.39	(0.01)	0.47	0.46	1.31	(0.23)	(0.13)	(0.46)	—	(0.82)	11.16
Dec. 31, 2013	10.58	0.31	(0.01)	0.27	0.03	0.60	(0.18)	(0.09)	(0.31)	—	(0.58)	10.63

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series D							
Dec. 31, 2017	10.28	4 504	438	0.90	0.93	13.53	0.02
Dec. 31, 2016	11.16	6 306	565	0.90	0.92	28.96	0.03
Dec. 31, 2015	10.96	5 187	473	0.90	0.93	85.81	0.03
Dec. 31, 2014	11.19	4 843	433	0.96	1.01	34.41	0.08
Dec. 31, 2013	10.65	3 522	331	0.96	1.02	31.53	0.09
Series O							
Dec. 31, 2017	10.23	3 533	345	0.08	0.11	13.53	0.02
Dec. 31, 2016	11.12	3 381	304	0.08	0.11	28.96	0.03
Dec. 31, 2015	10.92	2 750	252	0.08	0.12	85.81	0.03
Dec. 31, 2014	11.16	2 554	229	0.08	0.13	34.41	0.08
Dec. 31, 2013	10.63	1 838	173	0.09	0.15	31.53	0.09

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

Management Fees

RBC GAM is the manager and portfolio manager of the Fund.

Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series D	0.75%	33%	67%

Series O – no management fees are paid by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

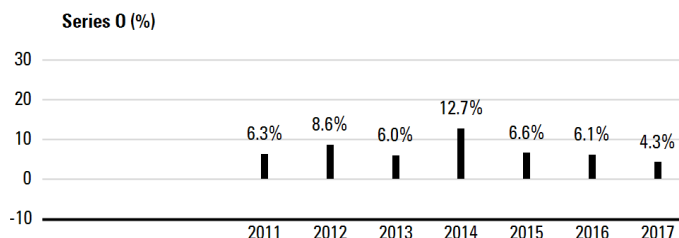
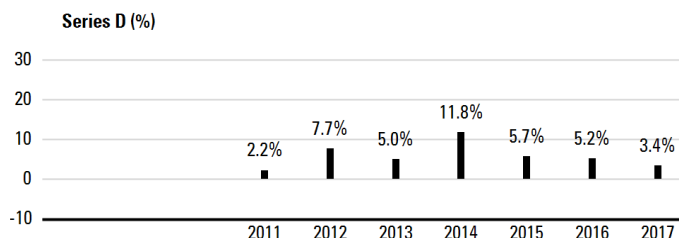
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2017, compared with the following benchmarks:

Benchmark 1 – FTSE TMX Canada Universe Bond Index

Benchmark 2 – S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series D	3.4	4.8	6.2	–	6.3
Benchmark 1	2.5	2.6	3.0	–	4.0
Benchmark 2	9.1	6.6	8.6	–	6.2
Series O	4.3	5.6	7.1	–	7.3
Benchmark 1	2.5	2.6	3.0	–	4.1
Benchmark 2	9.1	6.6	8.6	–	5.7

The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark indexes.

Series D units have been available for sale to unitholders since June 2011, and Series O units since January 2011.

Inception dates are not provided for series that have been in existence for more than 10 years.

INDEX DESCRIPTIONS

FTSE TMX Canada Universe Bond Index This index is designed as a broad measure of the Canadian investment-grade fixed-income market and includes bonds with maturities of at least one year.

S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2017

Investment Mix

	% of Net Asset Value
Bonds	61.7
Canadian Equities	19.5
Global Equities	12.3
United States Equities	3.9
Cash/Other	2.6

Top 25 Holdings*

	% of Net Asset Value
Phillips, Hager & North Inflation-Linked Bond Fund	32.0
Phillips, Hager & North Bond Fund	30.9
RBC QUBE Low Volatility Global Equity Fund	19.5
Phillips, Hager & North Canadian Equity Underlying Fund	6.3
Phillips, Hager & North Conservative Equity Income Fund	6.3
Vanguard Real Estate Investment Trust Fund	3.8
Cash & Cash Equivalents	0.7
Phillips, Hager & North Canadian Money Market Fund	0.5
Total	100.0

* The Fund holds fewer than 25 holdings.

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.rbcgam.com/funds, or by emailing us at info@phn.com.

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at www.sedar.com.

TARGET DATE FUND

PHILLIPS, HAGER & NORTH
LIFETIME 2020 FUND

 December 31, 2017

Portfolio Manager *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 8, 2018.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to achieve a balance of income and long-term capital growth relative to its target retirement date of 2020 by investing primarily in investment funds that hold equity, fixed income, income trust and money market securities and exchange traded funds (“ETFs”), or by investing directly in such securities.

The Fund invests primarily in underlying funds. The Fund seeks to achieve its investment strategies by investing in three broad asset classes: equities, fixed income, and Canadian or U.S. ETFs, either directly or indirectly through underlying funds. ETFs purchased by the Fund will initially be limited to those that track the investment performance of broad based real estate investment trust indices but may include other ETFs where permitted by applicable securities laws. At all times, the Fund will use a dynamic asset mix or glide path that adjusts the asset mix of the Fund on a quarterly basis relative to its target date.

Risk

The Fund has multiple risks, which are similar to the risks of investing in the underlying funds. The Fund is suitable for investors who plan to hold their investments for the medium-to-long term and can tolerate low-to-medium investment risk.

There were no significant changes to the investment objective and strategies that affected the Fund’s overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

Effective June 30, 2017, RBC GAM adopted the risk classification methodology under National Instrument 81-102 – *Investment Funds* (the “new risk classification methodology”). Pursuant to the new risk classification methodology, certain funds’ risk ratings were changed. RBC GAM reviews each fund’s risk rating on an annual basis or if there has been a material change to a fund’s investment objectives or investment strategies. Any changes to a fund’s risk rating are the result of RBC GAM’s annual review and the adoption of the new risk classification methodology.

There were no changes to the Fund’s risk rating during the reporting period.

Results of Operations

The Fund’s net asset value fell to \$29 million as of December 31, 2017, from \$33 million at the end of 2016. The decrease was due mainly to net redemptions.

Over the past year, the Fund’s Series O units gained 5.6%. The fixed-income benchmark rose 2.5% and the equity benchmark rose 9.1%. The Fund’s return is after the deduction of expenses, while benchmark

and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

Global economic growth surged to the highest in seven years in 2017 thanks to a confluence of factors. The expansion was highly synchronized, encompassing the bulk of developed and many emerging-market nations. In the U.S., measures of confidence and risk appetite were robust, benefiting from the macroeconomic strength and helping to sustain it. Economic growth in the Eurozone and Japan continued to impress with a persistence that would have been hard to fathom several years ago. Canadian growth was unexpectedly brisk, prompting the Bank of Canada to raise interest rates twice during the year, even as investors worried about Canadians’ high household debts and the future of the North American Free Trade Agreement.

Bonds issued by national governments ended 2017 with modest returns as inflation remained subdued and most major central banks extended bond-buying programs aimed at holding down interest rates. Yields moved generally lower in the first eight months of the year due to escalating tension between the U.S. and North Korea and continued skepticism about the Trump administration’s ability to enact its pro-growth policies. However, government-bond yields reversed higher in September as investors began anticipating efforts by central banks to scale back monetary stimulus and the likelihood of U.S. tax cuts increased. Canadian bonds underperformed U.S. fixed income given the faster-than-expected domestic growth. The Fund’s fixed-income holdings all had a positive impact on performance, with the largest contributor being the Phillips, Hager & North Inflation-Linked Bond Fund.

Stock markets rose in most of the world during 2017, driven by the tailwinds of rising corporate profits and the continued environment of relatively low global interest rates. Among the strongest-performing indexes were Japan, which benefited from the impact of structural reforms, and emerging markets, bolstered by a handful of technology stocks having large market capitalizations. In the U.S., equities were aided by expectations that the Republican-controlled Congress would work with President Trump to pass corporate and personal-income tax cuts, a hope that came to fruition at year end. European markets in local-currency terms and Canadian indexes had more modest gains because their indexes had minimal exposure to the strong returns delivered by the Information Technology sector. The Fund’s equity holdings contributed positively to overall performance, led by the RBC QUBE Low Volatility Global Equity Fund.

Recent Developments

The portfolio manager expects bond yields to move higher at a gradual pace, supported by the improving economy and monetary tightening. Meanwhile, earnings have been coming through and analysts are optimistic that the trend can persist. U.S. corporate-tax cuts could provide an additional boost to profits. Against this backdrop, equities continue to offer modest total-return potential.

Related-Party Transactions

Manager and Portfolio Manager

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank and is the manager and principal portfolio manager of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund. Both the management fee and fixed administration fee are calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund.

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies. The Fund also maintains bank accounts and overdraft provisions with Royal Bank for which Royal Bank may earn a fee. Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and holds title to the Fund's property on behalf of unitholders. RBC IS is the custodian of the Fund and holds the assets of the Fund.

RBC IS earns a fee as the trustee and custodian, which is paid by the manager from the fixed administration fee paid by the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund. The registrars earn a fee, which is paid by the manager from the fixed administration fee paid by the Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Independent Review Committee with respect to one or more of the following transactions:

Related-Party Trading Activities

- (a) trades in securities of Royal Bank;
- (b) investments in the securities of issuers for which a related-party dealer acted as an underwriter during the distribution of such securities and the 60-day period following the conclusion of such distribution of the underwritten securities to the public;
- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal; and

Inter-Fund Trading

- (d) purchases or sales of securities of an issuer from or to another investment fund or managed account managed by RBC GAM.

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²					Net Assets End of Year/Period
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital	Total	
Series D												
Dec. 31, 2017	12.42	1.63	(0.12)	0.30	(1.25)	0.56	(0.14)	(0.12)	(0.10)	(1.34)	(1.70)	11.30
Dec. 31, 2016	11.94	0.31	(0.12)	0.17	0.36	0.72	(0.06)	(0.11)	(0.09)	—	(0.26)	12.42
Dec. 31, 2015	11.87	0.34	(0.12)	0.61	(0.22)	0.61	(0.08)	(0.11)	(0.51)	—	(0.70)	11.94
Dec. 31, 2014	10.98	0.39	(0.12)	0.50	0.73	1.50	(0.11)	(0.10)	(0.45)	—	(0.66)	11.87
Dec. 31, 2013	10.93	0.28	(0.11)	0.30	0.02	0.49	(0.08)	(0.07)	(0.31)	—	(0.46)	10.98
Series O												
Dec. 31, 2017	12.33	1.64	(0.01)	0.31	(1.24)	0.70	(0.15)	(0.13)	(0.10)	(1.45)	(1.83)	11.19
Dec. 31, 2016	11.85	0.31	(0.01)	0.17	0.36	0.83	(0.10)	(0.18)	(0.09)	—	(0.37)	12.33
Dec. 31, 2015	11.81	0.34	(0.01)	0.61	(0.22)	0.72	(0.13)	(0.17)	(0.51)	—	(0.81)	11.85
Dec. 31, 2014	10.93	0.39	(0.01)	0.50	0.73	1.61	(0.17)	(0.16)	(0.45)	—	(0.78)	11.81
Dec. 31, 2013	10.87	0.28	(0.01)	0.30	0.02	0.59	(0.14)	(0.11)	(0.31)	—	(0.56)	10.93

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series D							
Dec. 31, 2017	11.30	15 940	1 410	0.96	0.97	19.81	0.03
Dec. 31, 2016	12.42	21 368	1 720	0.97	0.98	19.94	0.05
Dec. 31, 2015	11.94	14 303	1 198	0.96	0.98	63.64	0.04
Dec. 31, 2014	11.87	9 429	794	1.01	1.04	13.80	0.10
Dec. 31, 2013	10.98	5 711	520	1.02	1.06	18.66	0.10
Series O							
Dec. 31, 2017	11.19	13 437	1 201	0.09	0.10	19.81	0.03
Dec. 31, 2016	12.33	11 406	925	0.09	0.10	19.94	0.05
Dec. 31, 2015	11.85	8 448	713	0.09	0.10	63.64	0.04
Dec. 31, 2014	11.81	5 951	504	0.08	0.11	13.80	0.10
Dec. 31, 2013	10.93	3 286	301	0.08	0.12	18.66	0.10

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

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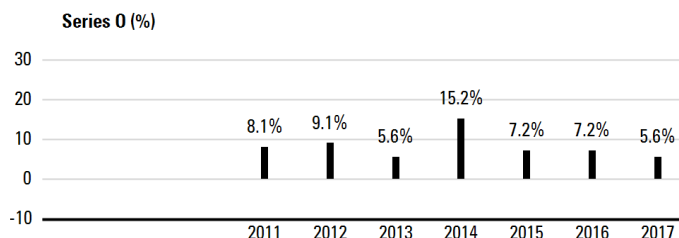
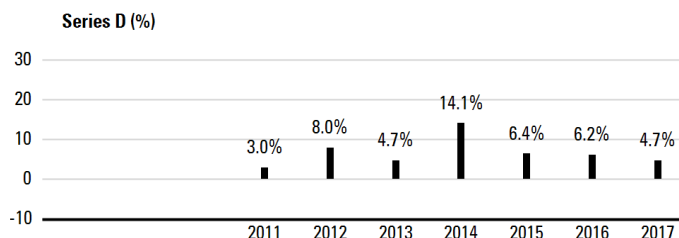
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PAST PERFORMANCE

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Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2017, compared with the following benchmarks:

Benchmark 1 – FTSE TMX Canada Universe Bond Index

Benchmark 2 – S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series D	4.7	5.8	7.2	–	7.2
Benchmark 1	2.5	2.6	3.0	–	4.0
Benchmark 2	9.1	6.6	8.6	–	6.2
Series O	5.6	6.7	8.1	–	8.3
Benchmark 1	2.5	2.6	3.0	–	4.1
Benchmark 2	9.1	6.6	8.6	–	5.7

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Series D units have been available for sale to unitholders since June 2011, and Series O units since January 2011.

Inception dates are not provided for series that have been in existence for more than 10 years.

INDEX DESCRIPTIONS

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S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2017

Investment Mix

	% of Net Asset Value
Bonds	55.6
Global Equities	24.7
Canadian Equities	12.6
United States Equities	5.4
Cash/Other	1.7

Top 25 Holdings*

	% of Net Asset Value
Phillips, Hager & North Inflation-Linked Bond Fund	53.0
RBC QUBE Low Volatility Global Equity Fund	18.0
Phillips, Hager & North Canadian Equity Underlying Fund	6.5
Phillips, Hager & North Conservative Equity Income Fund	5.8
Vanguard Real Estate Investment Trust Fund	3.9
RBC Global Equity Focus Fund	3.6
Phillips, Hager & North High Yield Bond Fund	3.0
RBC Emerging Markets Equity Fund	2.1
RBC QUBE Global Equity Fund	1.2
RBC U.S. Mid-Cap Value Equity Fund	1.1
Phillips, Hager & North Canadian Equity Value Fund	0.5
Phillips, Hager & North Canadian Money Market Fund	0.5
Cash & Cash Equivalents	0.4
RBC U.S. Small-Cap Value Equity Fund	0.4
Total	100.0

* The Fund holds fewer than 25 holdings.

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.rbcgam.com/funds, or by emailing us at info@phn.com.

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at www.sedar.com.

TARGET DATE FUND
**PHILLIPS, HAGER & NORTH
LIFETIME 2025 FUND**
December 31, 2017
Portfolio Manager *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 8, 2018.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

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This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to achieve a balance of income and long-term capital growth relative to its target retirement date of 2025 by investing primarily in investment funds that hold equity, fixed income, income trust and money market securities and exchange traded funds (“ETFs”), or by investing directly in such securities.

The Fund invests primarily in underlying funds. The Fund seeks to achieve its investment strategies by investing in three broad asset classes: equities, fixed income, and Canadian or U.S. ETFs, either directly or indirectly through underlying funds. ETFs purchased by the Fund will initially be limited to those that track the investment performance of broad based real estate investment trust indices but may include other ETFs where permitted by applicable securities laws. At all times, the Fund will use a dynamic asset mix or glide path that adjusts the asset mix of the Fund on a quarterly basis relative to its target date.

Risk

The Fund has multiple risks, which are similar to the risks of investing in the underlying funds. The Fund is suitable for investors who plan to hold their investments for the medium-to-long term and can tolerate low-to-medium investment risk.

There were no significant changes to the investment objective and strategies that affected the Fund’s overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

Effective June 30, 2017, RBC GAM adopted the risk classification methodology under National Instrument 81-102 – *Investment Funds* (the “new risk classification methodology”). Pursuant to the new risk classification methodology, certain funds’ risk ratings were changed. RBC GAM reviews each fund’s risk rating on an annual basis or if there has been a material change to a fund’s investment objectives or investment strategies. Any changes to a fund’s risk rating are the result of RBC GAM’s annual review and the adoption of the new risk classification methodology.

There were no changes to the Fund’s risk rating during the reporting period.

Results of Operations

The Fund’s net asset value rose to \$37 million as of December 31, 2017, from \$32 million at the end of 2016. The increase was due to a combination of net inflows and investment returns.

Over the past year, the Fund’s Series O units gained 7.1%. The fixed-income benchmark rose 2.5% and the equity benchmark rose 9.1%. The Fund’s return is after the deduction of expenses, while benchmark

and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

Global economic growth surged to the highest in seven years in 2017 thanks to a confluence of factors. The expansion was highly synchronized, encompassing the bulk of developed and many emerging-market nations. In the U.S., measures of confidence and risk appetite were robust, benefiting from the macroeconomic strength and helping to sustain it. Economic growth in the Eurozone and Japan continued to impress with a persistence that would have been hard to fathom several years ago. Canadian growth was unexpectedly brisk, prompting the Bank of Canada to raise interest rates twice during the year, even as investors worried about Canadians’ high household debts and the future of the North American Free Trade Agreement.

Bonds issued by national governments ended 2017 with modest returns as inflation remained subdued and most major central banks extended bond-buying programs aimed at holding down interest rates. Yields moved generally lower in the first eight months of the year due to escalating tension between the U.S. and North Korea and continued skepticism about the Trump administration’s ability to enact its pro-growth policies. However, government-bond yields reversed higher in September as investors began anticipating efforts by central banks to scale back monetary stimulus and the likelihood of U.S. tax cuts increased. Canadian bonds underperformed U.S. fixed income given the faster-than-expected domestic growth. The Fund’s fixed-income holdings all had a positive impact on performance, with the largest contributor being the Phillips, Hager & North Long Inflation-Linked Bond Fund.

Stock markets rose in most of the world during 2017, driven by the tailwinds of rising corporate profits and the continued environment of relatively low global interest rates. Among the strongest-performing indexes were Japan, which benefited from the impact of structural reforms, and emerging markets, bolstered by a handful of technology stocks having large market capitalizations. In the U.S., equities were aided by expectations that the Republican-controlled Congress would work with President Trump to pass corporate and personal-income tax cuts, a hope that came to fruition at year end. European markets in local-currency terms and Canadian indexes had more modest gains because their indexes had minimal exposure to the strong returns delivered by the Information Technology sector. The Fund’s equity holdings contributed positively to overall performance, led by the RBC Global Equity Focus Fund.

Recent Developments

The portfolio manager expects bond yields to move higher at a gradual pace, supported by the improving economy and monetary tightening. Meanwhile, earnings have been coming through and analysts are optimistic that the trend can persist. U.S. corporate-tax cuts could provide an additional boost to profits. Against this backdrop, equities continue to offer modest total-return potential.

Related-Party Transactions

Manager and Portfolio Manager

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank and is the manager and principal portfolio manager of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund. Both the management fee and fixed administration fee are calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund.

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies. The Fund also maintains bank accounts and overdraft provisions with Royal Bank for which Royal Bank may earn a fee. Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and holds title to the Fund's property on behalf of unitholders. RBC IS is the custodian of the Fund and holds the assets of the Fund.

RBC IS earns a fee as the trustee and custodian, which is paid by the manager from the fixed administration fee paid by the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund. The registrars earn a fee, which is paid by the manager from the fixed administration fee paid by the Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Independent Review Committee with respect to one or more of the following transactions:

Related-Party Trading Activities

- (a) trades in securities of Royal Bank;
- (b) investments in the securities of issuers for which a related-party dealer acted as an underwriter during the distribution of such securities and the 60-day period following the conclusion of such distribution of the underwritten securities to the public;
- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal; and

Inter-Fund Trading

- (d) purchases or sales of securities of an issuer from or to another investment fund or managed account managed by RBC GAM.

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²					Net Assets End of Year/Period
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital	Total	
Series D												
Dec. 31, 2017	12.53	1.02	(0.13)	0.31	(0.47)	0.73	(0.16)	(0.13)	(0.15)	(0.57)	(1.01)	12.28
Dec. 31, 2016	12.01	0.32	(0.12)	0.18	0.41	0.79	(0.07)	(0.10)	(0.11)	—	(0.28)	12.53
Dec. 31, 2015	12.00	0.32	(0.13)	0.71	(0.29)	0.61	(0.06)	(0.10)	(0.59)	—	(0.75)	12.01
Dec. 31, 2014	10.96	0.38	(0.13)	0.50	0.85	1.60	(0.11)	(0.09)	(0.45)	—	(0.65)	12.00
Dec. 31, 2013	11.02	0.28	(0.12)	0.33	(0.09)	0.40	(0.08)	(0.06)	(0.33)	—	(0.47)	10.96
Series O												
Dec. 31, 2017	12.44	1.01	(0.01)	0.31	(0.41)	0.90	(0.19)	(0.14)	(0.15)	(0.65)	(1.13)	12.19
Dec. 31, 2016	11.93	0.32	(0.01)	0.18	0.42	0.91	(0.12)	(0.17)	(0.11)	—	(0.40)	12.44
Dec. 31, 2015	11.92	0.32	(0.01)	0.71	(0.29)	0.73	(0.11)	(0.17)	(0.59)	—	(0.87)	11.93
Dec. 31, 2014	10.90	0.38	(0.01)	0.50	0.85	1.72	(0.18)	(0.15)	(0.45)	—	(0.78)	11.92
Dec. 31, 2013	10.96	0.27	(0.01)	0.33	(0.09)	0.50	(0.15)	(0.10)	(0.33)	—	(0.58)	10.90

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series D							
Dec. 31, 2017	12.28	12 511	1 019	1.03	1.04	13.92	0.04
Dec. 31, 2016	12.53	13 440	1 073	1.03	1.03	15.09	0.06
Dec. 31, 2015	12.01	9 384	781	1.02	1.03	43.06	0.05
Dec. 31, 2014	12.00	5 862	488	1.07	1.10	11.45	0.10
Dec. 31, 2013	10.96	3 339	305	1.06	1.10	19.24	0.10
Series O							
Dec. 31, 2017	12.19	24 178	1 983	0.09	0.10	13.92	0.04
Dec. 31, 2016	12.44	18 663	1 501	0.09	0.10	15.09	0.06
Dec. 31, 2015	11.93	13 925	1 168	0.09	0.11	43.06	0.05
Dec. 31, 2014	11.92	9 957	835	0.08	0.11	11.45	0.10
Dec. 31, 2013	10.90	5 821	534	0.09	0.13	19.24	0.10

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

Management Fees

RBC GAM is the manager and portfolio manager of the Fund.

Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series D	0.85%	29%	71%

Series O – no management fees are paid by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

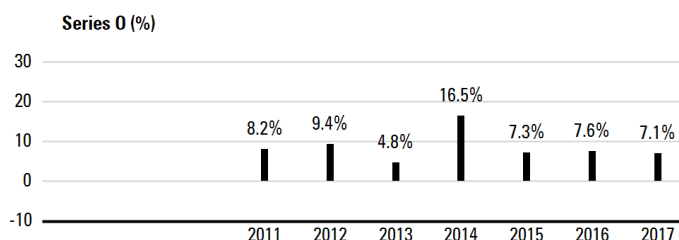
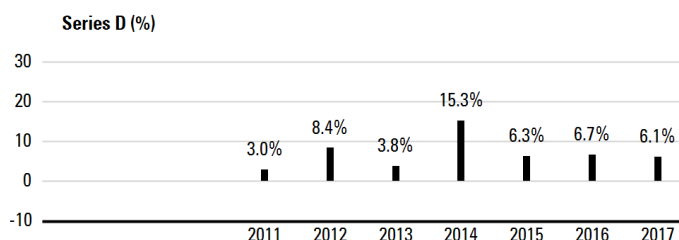
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2017, compared with the following benchmarks:

Benchmark 1 – FTSE TMX Canada Universe Bond Index

Benchmark 2 – S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series D	6.1	6.4	7.6	–	7.6
Benchmark 1	2.5	2.6	3.0	–	4.0
Benchmark 2	9.1	6.6	8.6	–	6.2
Series O	7.1	7.3	8.6	–	8.8
Benchmark 1	2.5	2.6	3.0	–	4.1
Benchmark 2	9.1	6.6	8.6	–	5.7

The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark indexes.

Series D units have been available for sale to unitholders since June 2011, and Series O units since January 2011.

Inception dates are not provided for series that have been in existence for more than 10 years.

INDEX DESCRIPTIONS

FTSE TMX Canada Universe Bond Index This index is designed as a broad measure of the Canadian investment-grade fixed-income market and includes bonds with maturities of at least one year.

S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2017

Investment Mix

	% of Net Asset Value
Bonds	50.6
Global Equities	27.1
Canadian Equities	13.1
United States Equities	7.3
Cash/Other	1.9

Top 25 Holdings*

	% of Net Asset Value
Phillips, Hager & North Long Inflation-linked Bond Fund	24.3
Phillips, Hager & North Inflation-Linked Bond Fund	23.7
RBC QUBE Low Volatility Global Equity Fund	12.2
RBC Global Equity Focus Fund	8.2
Phillips, Hager & North Canadian Equity Underlying Fund	7.1
Vanguard Real Estate Investment Trust Fund	4.9
RBC Emerging Markets Equity Fund	4.1
Phillips, Hager & North Conservative Equity Income Fund	3.3
Phillips, Hager & North Canadian Equity Value Fund	3.0
Phillips, Hager & North High Yield Bond Fund	2.9
RBC QUBE Global Equity Fund	2.8
RBC U.S. Mid-Cap Value Equity Fund	1.8
Cash & Cash Equivalents	0.7
RBC U.S. Small-Cap Value Equity Fund	0.6
Phillips, Hager & North Canadian Money Market Fund	0.4
Total	100.0

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TARGET DATE FUND

**PHILLIPS, HAGER & NORTH
LIFETIME 2030 FUND**

 December 31, 2017

Portfolio Manager *RBC Global Asset Management Inc. ("RBC GAM")*

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RBC IS earns a fee as the trustee and custodian, which is paid by the manager from the fixed administration fee paid by the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund. The registrars earn a fee, which is paid by the manager from the fixed administration fee paid by the Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Independent Review Committee with respect to one or more of the following transactions:

Related-Party Trading Activities

- (a) trades in securities of Royal Bank;
- (b) investments in the securities of issuers for which a related-party dealer acted as an underwriter during the distribution of such securities and the 60-day period following the conclusion of such distribution of the underwritten securities to the public;
- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal; and

Inter-Fund Trading

- (d) purchases or sales of securities of an issuer from or to another investment fund or managed account managed by RBC GAM.

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²					Net Assets End of Year/Period
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital	Total	
Series D												
Dec. 31, 2017	12.32	0.44	(0.13)	0.34	0.21	0.86	(0.16)	(0.10)	(0.18)	(0.02)	(0.46)	12.75
Dec. 31, 2016	11.86	0.35	(0.13)	0.23	0.33	0.78	(0.09)	(0.09)	(0.21)	—	(0.39)	12.32
Dec. 31, 2015	11.93	0.32	(0.13)	0.75	(0.30)	0.64	(0.07)	(0.08)	(0.65)	—	(0.80)	11.86
Dec. 31, 2014	10.93	0.39	(0.13)	0.53	0.83	1.62	(0.10)	(0.09)	(0.46)	—	(0.65)	11.93
Dec. 31, 2013	10.87	0.30	(0.13)	0.35	0.02	0.54	(0.21)	(0.12)	(0.13)	—	(0.46)	10.93
Series O												
Dec. 31, 2017	12.23	0.44	(0.01)	0.34	0.27	1.04	(0.24)	(0.14)	(0.18)	(0.03)	(0.59)	12.65
Dec. 31, 2016	11.77	0.35	(0.01)	0.24	0.38	0.96	(0.15)	(0.16)	(0.21)	—	(0.52)	12.23
Dec. 31, 2015	11.86	0.32	(0.01)	0.74	(0.30)	0.75	(0.12)	(0.16)	(0.65)	—	(0.93)	11.77
Dec. 31, 2014	10.87	0.38	(0.01)	0.52	0.82	1.71	(0.17)	(0.15)	(0.46)	—	(0.78)	11.86
Dec. 31, 2013	10.81	0.30	(0.01)	0.34	0.02	0.65	(0.27)	(0.17)	(0.13)	—	(0.57)	10.87

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series D							
Dec. 31, 2017	12.75	7 146	561	1.08	1.09	9.21	0.05
Dec. 31, 2016	12.32	7 614	618	1.07	1.08	10.91	0.06
Dec. 31, 2015	11.86	3 752	316	1.07	1.08	34.53	0.06
Dec. 31, 2014	11.93	2 958	248	1.11	1.14	9.51	0.11
Dec. 31, 2013	10.93	2 296	210	1.14	1.18	19.49	0.11
Series O							
Dec. 31, 2017	12.65	31 858	2 518	0.10	0.11	9.21	0.05
Dec. 31, 2016	12.23	24 169	1 976	0.09	0.10	10.91	0.06
Dec. 31, 2015	11.77	17 077	1 450	0.09	0.11	34.53	0.06
Dec. 31, 2014	11.86	11 316	954	0.09	0.12	9.51	0.11
Dec. 31, 2013	10.87	6 180	569	0.09	0.13	19.49	0.11

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

Management Fees

RBC GAM is the manager and portfolio manager of the Fund.

Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series D	0.90%	28%	72%

Series O – no management fees are paid by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

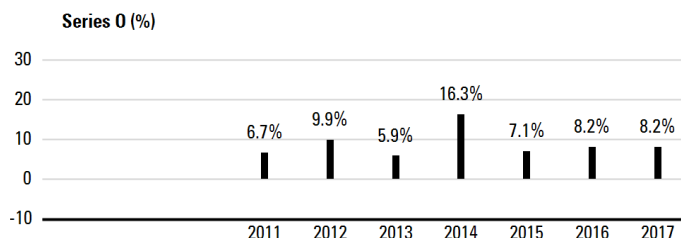
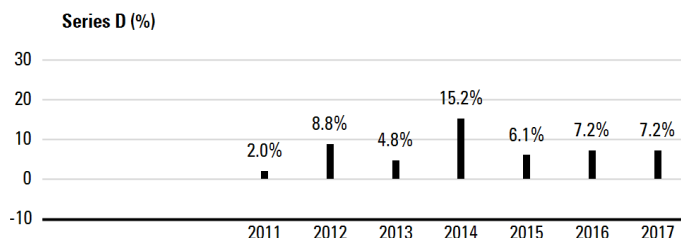
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2017, compared with the following benchmarks:

Benchmark 1 – FTSE TMX Canada Universe Bond Index

Benchmark 2 – S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series D	7.2	6.8	8.0	–	7.8
Benchmark 1	2.5	2.6	3.0	–	4.0
Benchmark 2	9.1	6.6	8.6	–	6.2
Series O	8.2	7.9	9.1	–	9.0
Benchmark 1	2.5	2.6	3.0	–	4.1
Benchmark 2	9.1	6.6	8.6	–	5.7

The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark indexes.

Series D units have been available for sale to unitholders since June 2011, and Series O units since January 2011.

Inception dates are not provided for series that have been in existence for more than 10 years.

INDEX DESCRIPTIONS

FTSE TMX Canada Universe Bond Index This index is designed as a broad measure of the Canadian investment-grade fixed-income market and includes bonds with maturities of at least one year.

S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2017

Investment Mix

	% of Net Asset Value
Bonds	49.5
Global Equities	27.3
Canadian Equities	13.1
United States Equities	7.9
Cash/Other	2.2

Top 25 Holdings*

	% of Net Asset Value
Phillips, Hager & North Long Inflation-linked Bond Fund	43.9
RBC Global Equity Focus Fund	12.5
Phillips, Hager & North Canadian Equity Underlying Fund	7.3
RBC QUBE Low Volatility Global Equity Fund	6.2
Phillips, Hager & North Canadian Equity Value Fund	5.6
Phillips, Hager & North High Yield Bond Fund	5.0
Vanguard Real Estate Investment Trust Fund	4.7
RBC Emerging Markets Equity Fund	4.6
RBC QUBE Global Equity Fund	4.2
RBC U.S. Mid-Cap Value Equity Fund	2.4
Phillips, Hager & North Inflation-Linked Bond Fund	1.0
Cash & Cash Equivalents	0.9
RBC U.S. Small-Cap Value Equity Fund	0.8
Phillips, Hager & North Conservative Equity Income Fund	0.5
Phillips, Hager & North Canadian Money Market Fund	0.4
Total	100.0

* The Fund holds fewer than 25 holdings.

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.rbcgam.com/funds, or by emailing us at info@phn.com.

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at www.sedar.com.

TARGET DATE FUND
**PHILLIPS, HAGER & NORTH
LIFETIME 2035 FUND**
December 31, 2017
Portfolio Manager *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 8, 2018.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to achieve a balance of income and long-term capital growth relative to its target retirement date of 2035 by investing primarily in investment funds that hold equity, fixed income, income trust and money market securities and exchange traded funds (“ETFs”), or by investing directly in such securities.

The Fund invests primarily in underlying funds. The Fund seeks to achieve its investment strategies by investing in three broad asset classes: equities, fixed income, and Canadian or U.S. ETFs, either directly or indirectly through underlying funds. ETFs purchased by the Fund will initially be limited to those that track the investment performance of broad based real estate investment trust indices but may include other ETFs where permitted by applicable securities laws. At all times, the Fund will use a dynamic asset mix or glide path that adjusts the asset mix of the Fund on a quarterly basis relative to its target date.

Risk

The Fund has multiple risks, which are similar to the risks of investing in the underlying funds. The Fund is suitable for investors who plan to hold their investments for the medium-to-long term and can tolerate low-to-medium investment risk.

There were no significant changes to the investment objective and strategies that affected the Fund’s overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

Effective June 30, 2017, RBC GAM adopted the risk classification methodology under National Instrument 81-102 – *Investment Funds* (the “new risk classification methodology”). Pursuant to the new risk classification methodology, certain funds’ risk ratings were changed. RBC GAM reviews each fund’s risk rating on an annual basis or if there has been a material change to a fund’s investment objectives or investment strategies. Any changes to a fund’s risk rating are the result of RBC GAM’s annual review and the adoption of the new risk classification methodology.

Effective June 30, 2017, the Fund’s risk rating changed from medium to low-to-medium.

Results of Operations

The Fund’s net asset value rose to \$48 million as of December 31, 2017, from \$37 million at the end of 2016. The increase was due to a combination of net inflows and investment returns.

Over the past year, the Fund’s Series O units gained 9.5%. The fixed-income benchmark rose 2.5% and the equity benchmark rose 9.1%. The Fund’s return is after the deduction of expenses, while benchmark

and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

Global economic growth surged to the highest in seven years in 2017 thanks to a confluence of factors. The expansion was highly synchronized, encompassing the bulk of developed and many emerging-market nations. In the U.S., measures of confidence and risk appetite were robust, benefiting from the macroeconomic strength and helping to sustain it. Economic growth in the Eurozone and Japan continued to impress with a persistence that would have been hard to fathom several years ago. Canadian growth was unexpectedly brisk, prompting the Bank of Canada to raise interest rates twice during the year, even as investors worried about Canadians’ high household debts and the future of the North American Free Trade Agreement.

Bonds issued by national governments ended 2017 with modest returns as inflation remained subdued and most major central banks extended bond-buying programs aimed at holding down interest rates. Yields moved generally lower in the first eight months of the year due to escalating tension between the U.S. and North Korea and continued skepticism about the Trump administration’s ability to enact its pro-growth policies. However, government-bond yields reversed higher in September as investors began anticipating efforts by central banks to scale back monetary stimulus and the likelihood of U.S. tax cuts increased. Canadian bonds underperformed U.S. fixed income given the faster-than-expected domestic growth. The Fund’s fixed-income holdings all had a positive impact on performance, with the largest contributor being the Phillips, Hager & North Long Inflation-Linked Bond Fund.

Stock markets rose in most of the world during 2017, driven by the tailwinds of rising corporate profits and the continued environment of relatively low global interest rates. Among the strongest-performing indexes were Japan, which benefited from the impact of structural reforms, and emerging markets, bolstered by a handful of technology stocks having large market capitalizations. In the U.S., equities were aided by expectations that the Republican-controlled Congress would work with President Trump to pass corporate and personal-income tax cuts, a hope that came to fruition at year end. European markets in local-currency terms and Canadian indexes had more modest gains because their indexes had minimal exposure to the strong returns delivered by the Information Technology sector. The Fund’s equity holdings contributed positively to overall performance, led by the RBC Global Equity Focus Fund.

Recent Developments

The portfolio manager expects bond yields to move higher at a gradual pace, supported by the improving economy and monetary tightening. Meanwhile, earnings have been coming through and analysts are optimistic that the trend can persist. U.S. corporate-tax cuts could provide an additional boost to profits. Against this backdrop, equities continue to offer modest total-return potential.

Related-Party Transactions

Manager and Portfolio Manager

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank and is the manager and principal portfolio manager of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund. Both the management fee and fixed administration fee are calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund.

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies. The Fund also maintains bank accounts and overdraft provisions with Royal Bank for which Royal Bank may earn a fee. Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and holds title to the Fund's property on behalf of unitholders. RBC IS is the custodian of the Fund and holds the assets of the Fund.

RBC IS earns a fee as the trustee and custodian, which is paid by the manager from the fixed administration fee paid by the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund. The registrars earn a fee, which is paid by the manager from the fixed administration fee paid by the Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Independent Review Committee with respect to one or more of the following transactions:

Related-Party Trading Activities

- (a) trades in securities of Royal Bank;
- (b) investments in the securities of issuers for which a related-party dealer acted as an underwriter during the distribution of such securities and the 60-day period following the conclusion of such distribution of the underwritten securities to the public;
- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal; and

Inter-Fund Trading

- (d) purchases or sales of securities of an issuer from or to another investment fund or managed account managed by RBC GAM.

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²					Net Assets End of Year/Period
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital	Total	
Series D												
Dec. 31, 2017	12.52	0.41	(0.14)	0.36	0.41	1.04	(0.14)	(0.10)	(0.20)	—	(0.44)	13.13
Dec. 31, 2016	12.07	0.34	(0.14)	0.25	0.41	0.86	(0.08)	(0.09)	(0.22)	—	(0.39)	12.52
Dec. 31, 2015	12.13	0.32	(0.14)	0.82	(0.27)	0.73	(0.06)	(0.09)	(0.74)	—	(0.89)	12.07
Dec. 31, 2014	11.19	0.39	(0.14)	0.62	0.74	1.61	(0.09)	(0.09)	(0.53)	—	(0.71)	12.13
Dec. 31, 2013	10.84	0.30	(0.13)	0.39	0.30	0.86	(0.08)	(0.07)	(0.34)	—	(0.49)	11.19
Series O												
Dec. 31, 2017	12.43	0.41	(0.01)	0.36	0.45	1.21	(0.23)	(0.15)	(0.20)	—	(0.58)	13.04
Dec. 31, 2016	11.99	0.34	(0.01)	0.25	0.38	0.96	(0.14)	(0.17)	(0.22)	—	(0.53)	12.43
Dec. 31, 2015	12.05	0.32	(0.01)	0.82	(0.27)	0.86	(0.11)	(0.17)	(0.74)	—	(1.02)	11.99
Dec. 31, 2014	11.13	0.38	(0.01)	0.62	0.73	1.72	(0.15)	(0.18)	(0.53)	—	(0.86)	12.05
Dec. 31, 2013	10.77	0.29	(0.01)	0.38	0.30	0.96	(0.15)	(0.12)	(0.34)	—	(0.61)	11.13

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series D							
Dec. 31, 2017	13.13	6 996	533	1.14	1.15	6.10	0.06
Dec. 31, 2016	12.52	6 356	508	1.13	1.14	11.65	0.08
Dec. 31, 2015	12.07	5 209	432	1.13	1.14	36.79	0.08
Dec. 31, 2014	12.13	4 286	353	1.19	1.21	10.77	0.12
Dec. 31, 2013	11.19	3 222	288	1.20	1.23	17.15	0.13
Series O							
Dec. 31, 2017	13.04	40 599	3 114	0.10	0.11	6.10	0.06
Dec. 31, 2016	12.43	30 818	2 480	0.10	0.11	11.65	0.08
Dec. 31, 2015	11.99	21 230	1 771	0.10	0.11	36.79	0.08
Dec. 31, 2014	12.05	14 155	1 174	0.09	0.11	10.77	0.12
Dec. 31, 2013	11.13	7 689	691	0.09	0.12	17.15	0.13

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

Management Fees

RBC GAM is the manager and portfolio manager of the Fund.

Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series D	0.95%	26%	74%

Series O – no management fees are paid by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

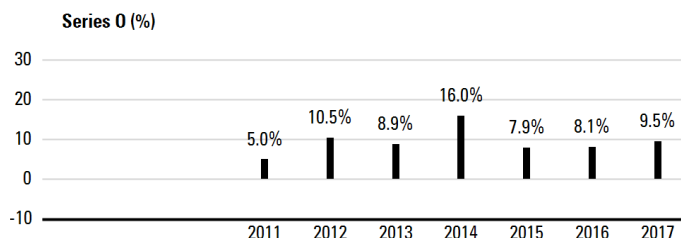
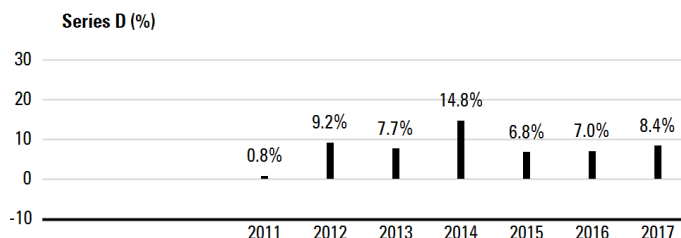
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2017, compared with the following benchmarks:

Benchmark 1 – FTSE TMX Canada Universe Bond Index

Benchmark 2 – S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series D	8.4	7.4	8.9	–	8.4
Benchmark 1	2.5	2.6	3.0	–	4.0
Benchmark 2	9.1	6.6	8.6	–	6.2
Series O	9.5	8.5	10.0	–	9.5
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The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark indexes.

Series D units have been available for sale to unitholders since June 2011, and Series O units since January 2011.

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INDEX DESCRIPTIONS

FTSE TMX Canada Universe Bond Index This index is designed as a broad measure of the Canadian investment-grade fixed-income market and includes bonds with maturities of at least one year.

S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2017

Investment Mix

	% of Net Asset Value
Bonds	45.4
Global Equities	30.3
Canadian Equities	13.3
United States Equities	9.0
Cash/Other	2.0

Top 25 Holdings*

	% of Net Asset Value
Phillips, Hager & North Long Inflation-linked Bond Fund	40.9
RBC Global Equity Focus Fund	16.4
Phillips, Hager & North Canadian Equity Underlying Fund	7.3
RBC Emerging Markets Equity Fund	6.8
Phillips, Hager & North Canadian Equity Value Fund	6.3
RBC QUBE Global Equity Fund	5.5
Phillips, Hager & North High Yield Bond Fund	5.0
Vanguard Real Estate Investment Trust Fund	4.9
RBC U.S. Mid-Cap Value Equity Fund	3.0
RBC QUBE Low Volatility Global Equity Fund	1.9
RBC U.S. Small-Cap Value Equity Fund	1.1
Cash & Cash Equivalents	0.5
Phillips, Hager & North Canadian Money Market Fund	0.4
Total	100.0

* The Fund holds fewer than 25 holdings.

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.rbcgam.com/funds, or by emailing us at info@phn.com.

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at www.sedar.com.

TARGET DATE FUND
**PHILLIPS, HAGER & NORTH
LIFETIME 2040 FUND**
December 31, 2017
Portfolio Manager *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 8, 2018.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to achieve a balance of income and long-term capital growth relative to its target retirement date of 2040 by investing primarily in investment funds that hold equity, fixed income, income trust and money market securities and exchange traded funds (“ETFs”), or by investing directly in such securities.

The Fund invests primarily in underlying funds. The Fund seeks to achieve its investment strategies by investing in three broad asset classes: equities, fixed income, and Canadian or U.S. ETFs, either directly or indirectly through underlying funds. ETFs purchased by the Fund will initially be limited to those that track the investment performance of broad based real estate investment trust indices but may include other ETFs where permitted by applicable securities laws. At all times, the Fund will use a dynamic asset mix or glide path that adjusts the asset mix of the Fund on a quarterly basis relative to its target date.

Risk

The Fund has multiple risks, which are similar to the risks of investing in the underlying funds. The Fund is suitable for investors who plan to hold their investments for the medium-to-long term and can tolerate low-to-medium investment risk.

There were no significant changes to the investment objective and strategies that affected the Fund’s overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

Effective June 30, 2017, RBC GAM adopted the risk classification methodology under National Instrument 81-102 – *Investment Funds* (the “new risk classification methodology”). Pursuant to the new risk classification methodology, certain funds’ risk ratings were changed. RBC GAM reviews each fund’s risk rating on an annual basis or if there has been a material change to a fund’s investment objectives or investment strategies. Any changes to a fund’s risk rating are the result of RBC GAM’s annual review and the adoption of the new risk classification methodology.

Effective June 30, 2017, the Fund’s risk rating changed from medium to low-to-medium.

Results of Operations

The Fund’s net asset value rose to \$48 million as of December 31, 2017, from \$35 million at the end of 2016. The increase was due to a combination of net inflows and investment returns.

Over the past year, the Fund’s Series O units gained 10.6%. The fixed-income benchmark rose 2.5% and the equity benchmark rose 9.1%. The Fund’s return is after the deduction of expenses, while benchmark

and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

Global economic growth surged to the highest in seven years in 2017 thanks to a confluence of factors. The expansion was highly synchronized, encompassing the bulk of developed and many emerging-market nations. In the U.S., measures of confidence and risk appetite were robust, benefiting from the macroeconomic strength and helping to sustain it. Economic growth in the Eurozone and Japan continued to impress with a persistence that would have been hard to fathom several years ago. Canadian growth was unexpectedly brisk, prompting the Bank of Canada to raise interest rates twice during the year, even as investors worried about Canadians’ high household debts and the future of the North American Free Trade Agreement.

Bonds issued by national governments ended 2017 with modest returns as inflation remained subdued and most major central banks extended bond-buying programs aimed at holding down interest rates. Yields moved generally lower in the first eight months of the year due to escalating tension between the U.S. and North Korea and continued skepticism about the Trump administration’s ability to enact its pro-growth policies. However, government-bond yields reversed higher in September as investors began anticipating efforts by central banks to scale back monetary stimulus and the likelihood of U.S. tax cuts increased. Canadian bonds underperformed U.S. fixed income given the faster-than-expected domestic growth. The Fund’s fixed-income holdings all had a positive impact on performance, with the largest contributor being the Phillips, Hager & North Long Inflation-Linked Bond Fund.

Stock markets rose in most of the world during 2017, driven by the tailwinds of rising corporate profits and the continued environment of relatively low global interest rates. Among the strongest-performing indexes were Japan, which benefited from the impact of structural reforms, and emerging markets, bolstered by a handful of technology stocks having large market capitalizations. In the U.S., equities were aided by expectations that the Republican-controlled Congress would work with President Trump to pass corporate and personal-income tax cuts, a hope that came to fruition at year end. European markets in local-currency terms and Canadian indexes had more modest gains because their indexes had minimal exposure to the strong returns delivered by the Information Technology sector. The Fund’s equity holdings contributed positively to overall performance, led by the RBC Global Equity Focus Fund.

Recent Developments

The portfolio manager expects bond yields to move higher at a gradual pace, supported by the improving economy and monetary tightening. Meanwhile, earnings have been coming through and analysts are optimistic that the trend can persist. U.S. corporate-tax cuts could provide an additional boost to profits. Against this backdrop, equities continue to offer modest total-return potential.

Related-Party Transactions

Manager and Portfolio Manager

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank and is the manager and principal portfolio manager of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund. Both the management fee and fixed administration fee are calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund.

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies. The Fund also maintains bank accounts and overdraft provisions with Royal Bank for which Royal Bank may earn a fee. Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and holds title to the Fund's property on behalf of unitholders. RBC IS is the custodian of the Fund and holds the assets of the Fund.

RBC IS earns a fee as the trustee and custodian, which is paid by the manager from the fixed administration fee paid by the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund. The registrars earn a fee, which is paid by the manager from the fixed administration fee paid by the Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Independent Review Committee with respect to one or more of the following transactions:

Related-Party Trading Activities

- (a) trades in securities of Royal Bank;
- (b) investments in the securities of issuers for which a related-party dealer acted as an underwriter during the distribution of such securities and the 60-day period following the conclusion of such distribution of the underwritten securities to the public;
- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal; and

Inter-Fund Trading

- (d) purchases or sales of securities of an issuer from or to another investment fund or managed account managed by RBC GAM.

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²					Net Assets End of Year/Period
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital	Total	
Series D												
Dec. 31, 2017	12.60	0.41	(0.15)	0.40	0.54	1.20	(0.12)	(0.10)	(0.35)	—	(0.57)	13.22
Dec. 31, 2016	12.14	0.34	(0.14)	0.25	0.41	0.86	(0.07)	(0.09)	(0.24)	—	(0.40)	12.60
Dec. 31, 2015	12.14	0.34	(0.15)	0.83	(0.29)	0.73	(0.05)	(0.09)	(0.72)	—	(0.86)	12.14
Dec. 31, 2014	11.29	0.38	(0.15)	0.72	0.63	1.58	(0.07)	(0.09)	(0.61)	—	(0.77)	12.14
Dec. 31, 2013	10.60	0.30	(0.14)	0.45	0.61	1.22	(0.08)	(0.06)	(0.36)	—	(0.50)	11.29
Series O												
Dec. 31, 2017	12.50	0.41	(0.01)	0.40	0.56	1.36	(0.21)	(0.16)	(0.35)	—	(0.72)	13.11
Dec. 31, 2016	12.05	0.34	(0.01)	0.25	0.42	1.00	(0.13)	(0.17)	(0.24)	—	(0.54)	12.50
Dec. 31, 2015	12.06	0.34	(0.01)	0.83	(0.29)	0.87	(0.11)	(0.18)	(0.72)	—	(1.01)	12.05
Dec. 31, 2014	11.22	0.38	(0.01)	0.72	0.63	1.72	(0.14)	(0.18)	(0.61)	—	(0.93)	12.06
Dec. 31, 2013	10.53	0.30	(0.01)	0.45	0.61	1.35	(0.14)	(0.13)	(0.36)	—	(0.63)	11.22

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series D							
Dec. 31, 2017	13.22	4 702	356	1.18	1.19	4.59	0.06
Dec. 31, 2016	12.60	4 048	321	1.18	1.19	13.04	0.07
Dec. 31, 2015	12.14	3 294	271	1.21	1.22	35.55	0.08
Dec. 31, 2014	12.14	1 687	139	1.26	1.28	12.35	0.14
Dec. 31, 2013	11.29	1 232	109	1.25	1.29	17.69	0.14
Series O							
Dec. 31, 2017	13.11	42 935	3 275	0.10	0.11	4.59	0.06
Dec. 31, 2016	12.50	31 436	2 515	0.10	0.11	13.04	0.07
Dec. 31, 2015	12.05	22 083	1 833	0.10	0.12	35.55	0.08
Dec. 31, 2014	12.06	14 556	1 206	0.10	0.12	12.35	0.14
Dec. 31, 2013	11.22	8 177	729	0.09	0.13	17.69	0.14

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

Management Fees

RBC GAM is the manager and portfolio manager of the Fund.

Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series D	1.00%	25%	75%

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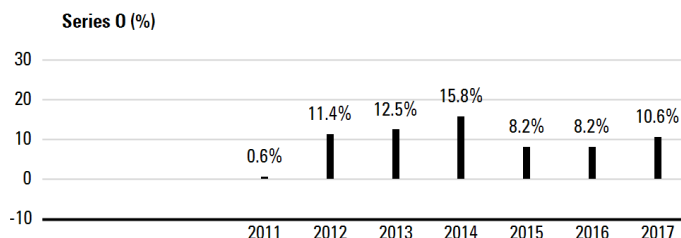
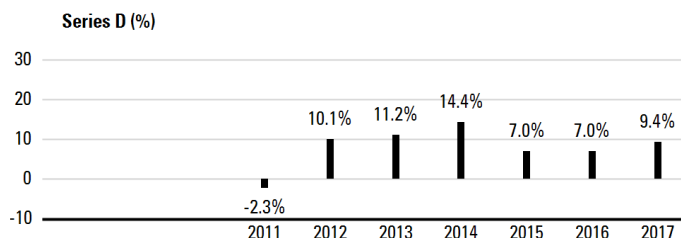
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(after consideration of derivative products, if any)

As at December 31, 2017

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Bonds	39.5
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Top 25 Holdings*

	% of Net Asset Value
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The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at www.sedar.com.

TARGET DATE FUND

PHILLIPS, HAGER & NORTH
LIFETIME 2045 FUND

 December 31, 2017

Portfolio Manager *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 8, 2018.

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Results of Operations

The Fund’s net asset value rose to \$94 million as of December 31, 2017, from \$71 million at the end of 2016. The increase was due to a combination of net inflows and investment returns.

Over the past year, the Fund’s Series O units gained 12.3%. The fixed-income benchmark rose 2.5% and the equity benchmark rose 9.1%. The Fund’s return is after the deduction of expenses, while benchmark

and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

Global economic growth surged to the highest in seven years in 2017 thanks to a confluence of factors. The expansion was highly synchronized, encompassing the bulk of developed and many emerging-market nations. In the U.S., measures of confidence and risk appetite were robust, benefiting from the macroeconomic strength and helping to sustain it. Economic growth in the Eurozone and Japan continued to impress with a persistence that would have been hard to fathom several years ago. Canadian growth was unexpectedly brisk, prompting the Bank of Canada to raise interest rates twice during the year, even as investors worried about Canadians’ high household debts and the future of the North American Free Trade Agreement.

Bonds issued by national governments ended 2017 with modest returns as inflation remained subdued and most major central banks extended bond-buying programs aimed at holding down interest rates. Yields moved generally lower in the first eight months of the year due to escalating tension between the U.S. and North Korea and continued skepticism about the Trump administration’s ability to enact its pro-growth policies. However, government-bond yields reversed higher in September as investors began anticipating efforts by central banks to scale back monetary stimulus and the likelihood of U.S. tax cuts increased. Canadian bonds underperformed U.S. fixed income given the faster-than-expected domestic growth. The Fund’s fixed-income holdings all had a positive impact on performance, with the largest contributor being the Phillips, Hager & North Long Inflation-Linked Bond Fund.

Stock markets rose in most of the world during 2017, driven by the tailwinds of rising corporate profits and the continued environment of relatively low global interest rates. Among the strongest-performing indexes were Japan, which benefited from the impact of structural reforms, and emerging markets, bolstered by a handful of technology stocks having large market capitalizations. In the U.S., equities were aided by expectations that the Republican-controlled Congress would work with President Trump to pass corporate and personal-income tax cuts, a hope that came to fruition at year end. European markets in local-currency terms and Canadian indexes had more modest gains because their indexes had minimal exposure to the strong returns delivered by the Information Technology sector. The Fund’s equity holdings contributed positively to overall performance, led by the RBC Global Equity Focus Fund.

Recent Developments

The portfolio manager expects bond yields to move higher at a gradual pace, supported by the improving economy and monetary tightening. Meanwhile, earnings have been coming through and analysts are optimistic that the trend can persist. U.S. corporate-tax cuts could provide an additional boost to profits. Against this backdrop, equities continue to offer modest total-return potential.

Related-Party Transactions

Manager and Portfolio Manager

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank and is the manager and principal portfolio manager of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund. Both the management fee and fixed administration fee are calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund.

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies. The Fund also maintains bank accounts and overdraft provisions with Royal Bank for which Royal Bank may earn a fee. Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and holds title to the Fund's property on behalf of unitholders. RBC IS is the custodian of the Fund and holds the assets of the Fund.

RBC IS earns a fee as the trustee and custodian, which is paid by the manager from the fixed administration fee paid by the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund. The registrars earn a fee, which is paid by the manager from the fixed administration fee paid by the Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Independent Review Committee with respect to one or more of the following transactions:

Related-Party Trading Activities

- (a) trades in securities of Royal Bank;
- (b) investments in the securities of issuers for which a related-party dealer acted as an underwriter during the distribution of such securities and the 60-day period following the conclusion of such distribution of the underwritten securities to the public;
- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal; and

Inter-Fund Trading

- (d) purchases or sales of securities of an issuer from or to another investment fund or managed account managed by RBC GAM.

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²					Net Assets End of Year/Period
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital	Total	
Series D												
Dec. 31, 2017	13.16	0.40	(0.17)	0.49	0.74	1.46	(0.09)	(0.10)	(0.26)	—	(0.45)	14.16
Dec. 31, 2016	12.59	0.35	(0.16)	0.28	0.48	0.95	(0.04)	(0.11)	(0.18)	—	(0.33)	13.16
Dec. 31, 2015	12.38	0.36	(0.16)	0.82	(0.09)	0.93	(0.04)	(0.11)	(0.71)	—	(0.86)	12.59
Dec. 31, 2014	11.59	0.40	(0.16)	0.88	0.48	1.60	(0.04)	(0.10)	(0.68)	—	(0.82)	12.38
Dec. 31, 2013	10.50	0.34	(0.15)	0.59	0.98	1.76	(0.07)	(0.07)	(0.40)	—	(0.54)	11.59
Series O												
Dec. 31, 2017	13.07	0.40	(0.01)	0.49	0.73	1.61	(0.16)	(0.20)	(0.26)	—	(0.62)	14.05
Dec. 31, 2016	12.51	0.35	(0.01)	0.28	0.48	1.10	(0.09)	(0.22)	(0.18)	—	(0.49)	13.07
Dec. 31, 2015	12.31	0.36	(0.01)	0.83	(0.10)	1.08	(0.09)	(0.21)	(0.71)	—	(1.01)	12.51
Dec. 31, 2014	11.53	0.39	(0.01)	0.86	0.47	1.71	(0.09)	(0.21)	(0.68)	—	(0.98)	12.31
Dec. 31, 2013	10.43	0.33	(0.01)	0.57	0.95	1.84	(0.13)	(0.14)	(0.40)	—	(0.67)	11.53

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series D							
Dec. 31, 2017	14.16	6 907	488	1.26	1.26	4.95	0.08
Dec. 31, 2016	13.16	5 875	446	1.26	1.26	10.52	0.11
Dec. 31, 2015	12.59	4 379	348	1.25	1.26	37.28	0.10
Dec. 31, 2014	12.38	1 956	158	1.31	1.32	10.51	—
Dec. 31, 2013	11.59	1 468	127	1.32	1.35	16.98	0.17
Series O							
Dec. 31, 2017	14.05	86 997	6 192	0.11	0.11	4.95	0.08
Dec. 31, 2016	13.07	65 082	4 981	0.11	0.11	10.52	0.11
Dec. 31, 2015	12.51	45 335	3 625	0.11	0.11	37.28	0.10
Dec. 31, 2014	12.31	28 545	2 320	0.10	0.11	10.51	—
Dec. 31, 2013	11.53	13 875	1 203	0.10	0.13	16.98	0.17

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

Management Fees

RBC GAM is the manager and portfolio manager of the Fund.

Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series D	1.05%	24%	76%

Series O – no management fees are paid by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

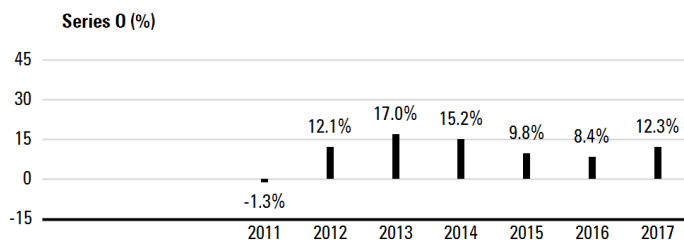
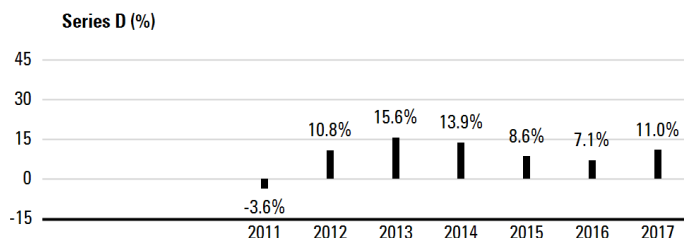
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2017, compared with the following benchmarks:

Benchmark 1 – FTSE TMX Canada Universe Bond Index

Benchmark 2 – S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series D	11.0	8.9	11.2	–	9.6
Benchmark 1	2.5	2.6	3.0	–	4.0
Benchmark 2	9.1	6.6	8.6	–	6.2
Series O	12.3	10.1	12.5	–	10.5
Benchmark 1	2.5	2.6	3.0	–	4.1
Benchmark 2	9.1	6.6	8.6	–	5.7

The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark indexes.

Series D units have been available for sale to unitholders since June 2011, and Series O units since January 2011.

Inception dates are not provided for series that have been in existence for more than 10 years.

INDEX DESCRIPTIONS

FTSE TMX Canada Universe Bond Index This index is designed as a broad measure of the Canadian investment-grade fixed-income market and includes bonds with maturities of at least one year.

S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2017

Investment Mix

	% of Net Asset Value
Global Equities	40.3
Bonds	29.6
Canadian Equities	16.4
United States Equities	11.4
Cash/Other	2.3

Top 25 Holdings*

	% of Net Asset Value
Phillips, Hager & North Long Inflation-linked Bond Fund	25.0
RBC Global Equity Focus Fund	23.2
RBC Emerging Markets Equity Fund	9.9
Phillips, Hager & North Canadian Equity Value Fund	8.4
Phillips, Hager & North Canadian Equity Underlying Fund	8.3
RBC QUBE Global Equity Fund	7.7
Phillips, Hager & North High Yield Bond Fund	5.0
RBC U.S. Mid-Cap Value Equity Fund	5.0
Vanguard Real Estate Investment Trust Fund	4.6
RBC U.S. Small-Cap Value Equity Fund	1.8
Cash & Cash Equivalents	0.7
Phillips, Hager & North Canadian Money Market Fund	0.4
Total	100.0

* The Fund holds fewer than 25 holdings.

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.rbcgam.com/funds, or by emailing us at info@phn.com.

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at www.sedar.com.

TARGET DATE FUND
**PHILLIPS, HAGER & NORTH
LIFETIME 2050 FUND**
December 31, 2017
Portfolio Manager *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 8, 2018.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to achieve a balance of income and long-term capital growth relative to its target retirement date of 2050 by investing primarily in investment funds that hold equity, fixed income, income trust and money market securities and exchange traded funds (“ETFs”), or by investing directly in such securities.

The Fund invests primarily in underlying funds. The Fund seeks to achieve its investment strategies by investing in three broad asset classes: equities, fixed income, and Canadian or U.S. ETFs, either directly or indirectly through underlying funds. ETFs purchased by the Fund will initially be limited to those that track the investment performance of broad based real estate investment trust indices but may include other ETFs where permitted by applicable securities laws. At all times, the Fund will use a dynamic asset mix or glide path that adjusts the asset mix of the Fund on a quarterly basis relative to its target date.

Risk

The Fund has multiple risks, which are similar to the risks of investing in the underlying funds. The Fund is suitable for investors who plan to hold their investments for the medium-to-long term and can tolerate low-to-medium investment risk.

There were no significant changes to the investment objective and strategies that affected the Fund’s overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

Effective June 30, 2017, RBC GAM adopted the risk classification methodology under National Instrument 81-102 – *Investment Funds* (the “new risk classification methodology”). Pursuant to the new risk classification methodology, certain funds’ risk ratings were changed. RBC GAM reviews each fund’s risk rating on an annual basis or if there has been a material change to a fund’s investment objectives or investment strategies. Any changes to a fund’s risk rating are the result of RBC GAM’s annual review and the adoption of the new risk classification methodology.

Effective June 30, 2017, the Fund’s risk rating changed from medium to low-to-medium.

Results of Operations

The Fund’s net asset value rose to \$26 million as of December 31, 2017, from \$12 million at the end of 2016. The increase was due mainly to net inflows.

Over the past year, the Fund’s Series O units gained 13.7%. The fixed-income benchmark rose 2.5% and the equity benchmark rose 9.1%. The Fund’s return is after the deduction of expenses, while benchmark

and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

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- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal; and

Inter-Fund Trading

- (d) purchases or sales of securities of an issuer from or to another investment fund or managed account managed by RBC GAM.

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

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		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital	Total	
Series D												
Dec. 31, 2017	10.81	0.38	(0.15)	0.53	0.62	1.38	(0.04)	(0.09)	(0.39)	—	(0.52)	11.62
Dec. 31, 2016	10.34	0.40	(0.14)	0.27	0.33	0.86	(0.03)	(0.07)	(0.18)	—	(0.28)	10.81
Dec. 31, 2015	9.88	0.48	(0.16)	0.68	(0.51)	0.49	(0.02)	(0.07)	(0.33)	—	(0.42)	10.34
Dec. 31, 2014 ³	10.00 [†]	0.22	(0.25)	0.49	(0.24)	0.22	(0.45)	(0.13)	—	—	(0.58)	9.88
Series O												
Dec. 31, 2017	10.71	0.37	(0.01)	0.52	0.63	1.51	(0.09)	(0.19)	(0.39)	—	(0.67)	11.50
Dec. 31, 2016	10.25	0.37	(0.01)	0.25	0.47	1.08	(0.06)	(0.18)	(0.18)	—	(0.42)	10.71
Dec. 31, 2015	9.79	0.48	(0.03)	0.68	(0.50)	0.63	(0.05)	(0.18)	(0.33)	—	(0.56)	10.25
Dec. 31, 2014 ³	10.00 [†]	0.24	(0.20)	0.52	(0.25)	0.31	(0.55)	(0.16)	—	—	(0.71)	9.79

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From June 2014.

[†] Initial offering net asset value per unit.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series D							
Dec. 31, 2017	11.62	1 140	98	1.32	1.33	3.53	0.10
Dec. 31, 2016	10.81	610	56	1.32	1.35	16.14	0.12
Dec. 31, 2015	10.34	417	40	1.36	1.55	34.42	0.11
Dec. 31, 2014 ⁴	9.88	35	4	1.30	3.20	1.15	—
Series O							
Dec. 31, 2017	11.50	25 141	2 185	0.11	0.12	3.53	0.10
Dec. 31, 2016	10.71	11 318	1 057	0.11	0.14	16.14	0.12
Dec. 31, 2015	10.25	3 140	306	0.11	0.30	34.42	0.11
Dec. 31, 2014 ⁴	9.79	157	16	0.06	1.96	1.15	—

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From June 2014.

Management Fees

RBC GAM is the manager and portfolio manager of the Fund.

Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series D	1.10%	23%	77%

Series O – no management fees are paid by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

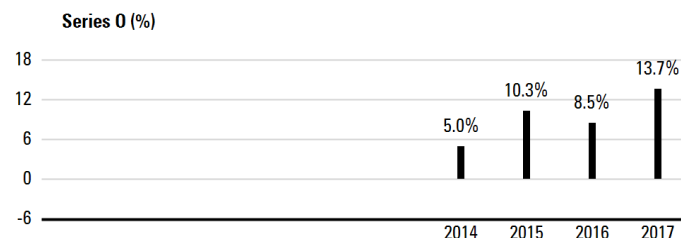
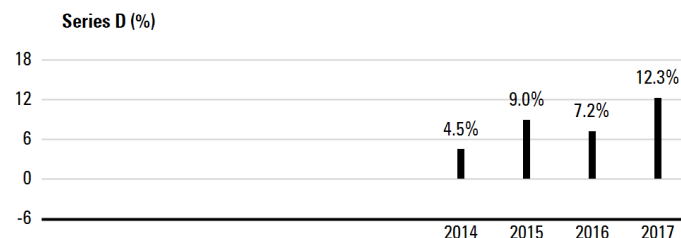
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2017, compared with the following benchmarks:

Benchmark 1 – FTSE TMX Canada Universe Bond Index

Benchmark 2 – S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series D	12.3	9.5	—	—	9.8
Benchmark 1	2.5	2.6	—	—	3.0
Benchmark 2	9.1	6.6	—	—	4.9
Series O	13.7	10.8	—	—	11.1
Benchmark 1	2.5	2.6	—	—	3.0
Benchmark 2	9.1	6.6	—	—	4.9

The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark indexes.

Series D and Series O units have been available for sale to unitholders since August 2014.

Inception dates are not provided for series that have been in existence for more than 10 years.

INDEX DESCRIPTIONS

FTSE TMX Canada Universe Bond Index This index is designed as a broad measure of the Canadian investment-grade fixed-income market and includes bonds with maturities of at least one year.

S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2017

Investment Mix

	% of Net Asset Value
Global Equities	45.7
Bonds	20.4
Canadian Equities	18.9
United States Equities	12.6
Cash/Other	2.4

Top 25 Holdings*

	% of Net Asset Value
RBC Global Equity Focus Fund	26.4
Phillips, Hager & North Long Inflation-linked Bond Fund	15.9
RBC Emerging Markets Equity Fund	11.1
Phillips, Hager & North Canadian Equity Underlying Fund	9.6
Phillips, Hager & North Canadian Equity Value Fund	9.6
RBC QUBE Global Equity Fund	8.8
RBC U.S. Mid-Cap Value Equity Fund	5.6
Vanguard Real Estate Investment Trust Fund	5.1
Phillips, Hager & North High Yield Bond Fund	4.9
RBC U.S. Small-Cap Value Equity Fund	1.9
Cash & Cash Equivalents	0.6
Phillips, Hager & North Canadian Money Market Fund	0.5
Total	100.0

* The Fund holds fewer than 25 holdings.

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.rbcgam.com/funds, or by emailing us at info@phn.com.

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at www.sedar.com.

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